BKT
BANKA KOMBETARE TREGTARE

The Banker
Bank of the Year 2020
KOSOVO

Annual Report 2020

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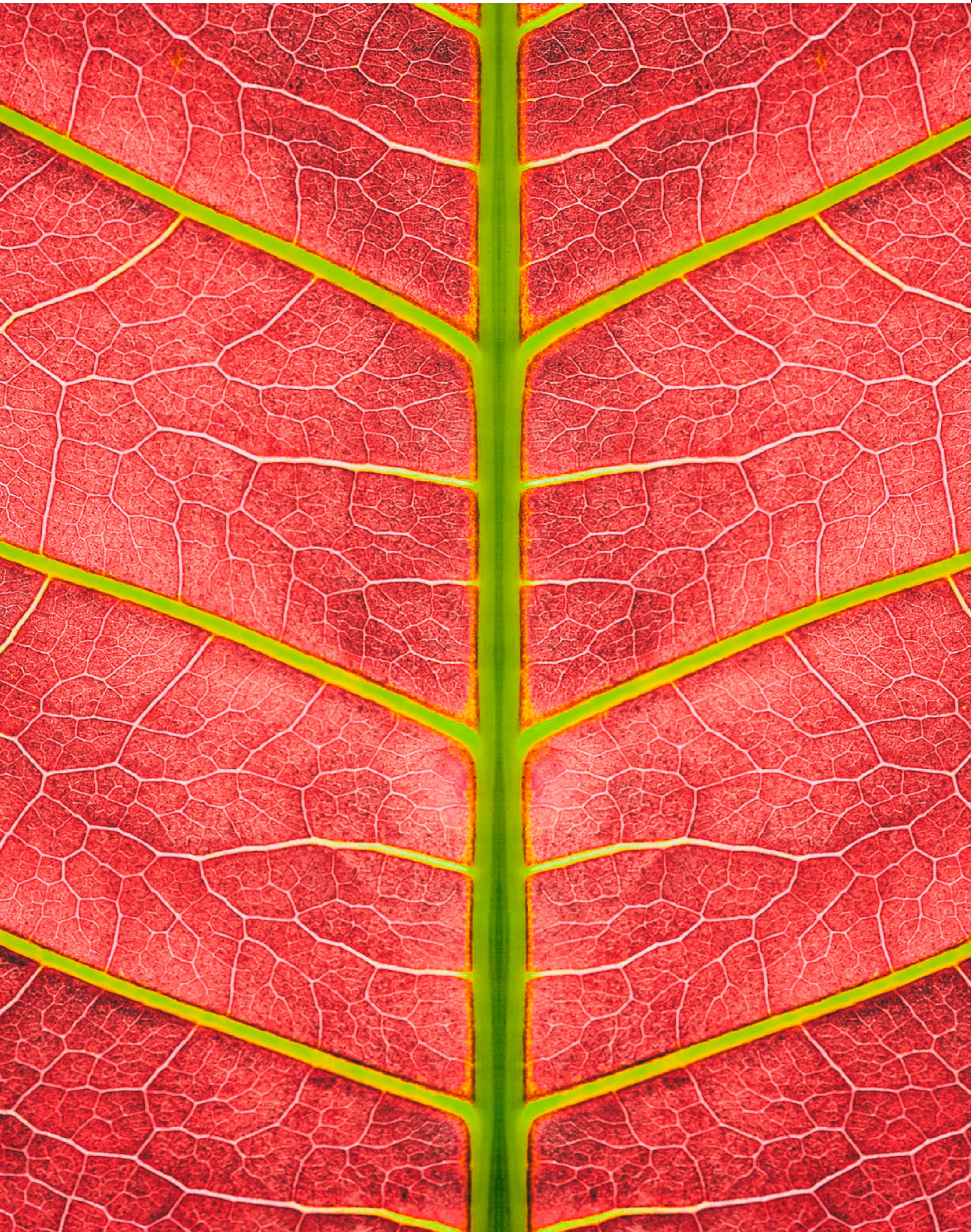
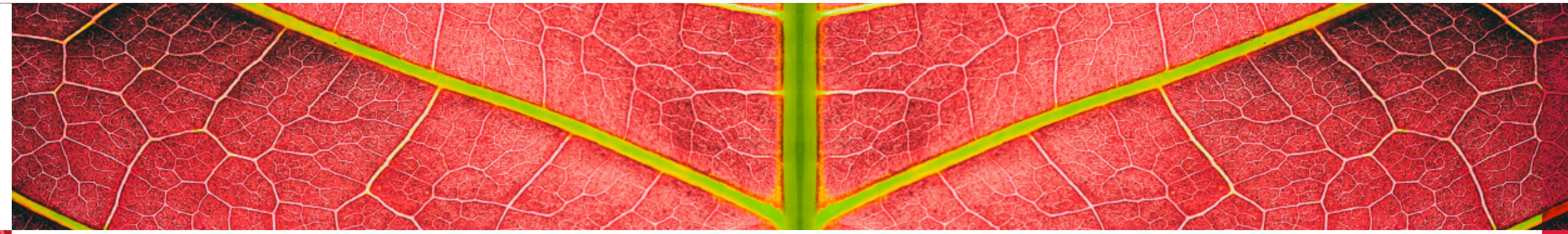




Great history shaping the future

The roots of Banka Kombëtare Tregtare were founded on 29 November 1925 with the establishment of the first branch in the historical building in Durrës that represents the oldest financial institution in Albania.

Banka Kombëtare Tregtare, with the name it holds today, was established in January 1993 by the joint venture of Banka Tregtare Shqiptare with Banka Kombëtare e Shqipërisë. BKT was registered as shareholder in 1997, and today is the largest and the oldest bank in Albania. BKT accomplished its privatization process in 2000 and on 30 June 2009, Çalık Holding became the only shareholder of BKT.

Having a consolidated capital structure and with extensive and dynamic competitive advantages, BKT began a new phase of growth and sustained success. Being the oldest bank and the first provider of financial services in the country, BKT has deep-rooted experience, in-depth local knowledge, a solid corporate culture and a more innovative approach to support its vision.

BKT opened its first branch in Kosovo, respectively, in November 2007, a few months prior to Kosova's declaration of Independence (17 February 2008). BKT brought its long experience and heritage, to this newborn country. From that moment on, BKT and Kosovo continued to grow together and help each other prosper. With maximum dedication, starting with a staff of 11 people, Banka Kombëtare Tregtare expanded its network in 16 cities of Kosovo by positioning closer to clients with 26 branches and agencies and at the same time increasing the number of employees to 389.

On 30 April 2018, Banka Kombëtare Tregtare Kosovo Branch, changed its status from branch of a foreign Bank to a subsidiary Bank. Now, it is a Bank licensed by the Central Bank of the Republic of Kosovo, with the change of the status, the bank changed its name from Banka Kombëtare Tregtare Kosovo Branch to Banka Kombëtare Tregtare Kosovë J.S.C

BKT Kosova has been awarded the prestigious prize Bank of the Year 2020 for Kosovo by The Banker, which is a financial magazine published by The Financial Times.

Marking the highest growth during the last three years in Kosovo, and considering the strong, qualitative and promising growth and development during 2020, BKT Kosova's success is recognized internationally. BKT Kosova operates with a strong focus placed on international banking and global partnerships, as well as on enhancing its customer service with the aim to provide access to banking for all customer categories: Individuals, Corporations, SMEs and Micro-enterprises. BKT Kosova is one of the fastest-growing banks in the Kosovo market and it runs the fastest and most innovative pace of digitalization in the banking industry of the country.

02 Mission, Vision and Core Values

Mission

To contribute to rising standards of living by using our talents and energy to develop solutions that add value to people's lives, by providing people with peace of mind, convenience, and possibilities in the banking sector.

Vision

To grow and become a leading bank in Kosovo, by adding value to every life we touch, in each of our areas of operation, with reliable teams empowered by our innovative and entrepreneurial spirit.

Values and Working Principles

Our people are guided by the fundamental values and main working principles as follows:

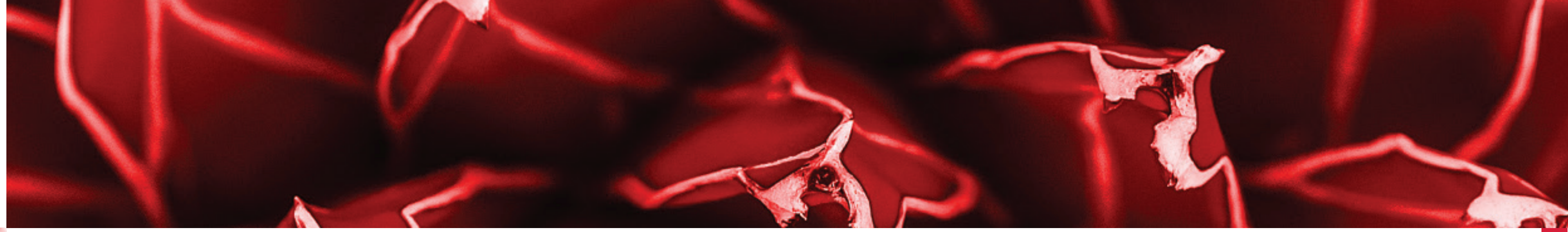
Our Core Values:

- *Fairness*
- *Heart-guided work*
- *Reputation*
- *People orientation*
- *Innovation*
- *Agility*
- *Sustainability*
- *Integrity*
- *Confidentiality*
- *Transparency*

Our Work Principles:

- *Teamwork*
- *Accountability*
- *Open communication*
- *Quality*
- *Efficiency*
- *Customer focus*

03 BKT Kosova Milestones



1925
First Branch
First branch is opened in Durrës

1926
New Branches
Shkodra and Vlora branches are opened

1993
BKT Establishment
BKT is established after merger of ACB and NBA

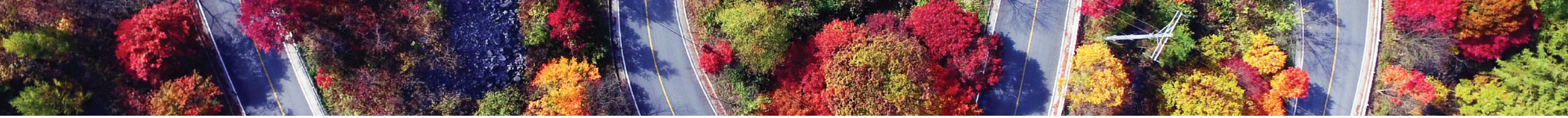
1997
Joint Stock
BKT is established as a Joint Stock Company

2000
Privatization
BKT finalizes the process of privatization

2007
BKT Kosova
BKT is established in Kosovo as a branch of BKT Albania

2009
Çalik FInancial Services
Çalik acquires 100% of the shares

2018
BKT Kosova
BKT Kosova changes its status to subsidairy



First branch of Banka Kombëtare Tregtare was established in Durrës on 29 November 1925, in the historical building where today's BKT Durrës Branch is located. This building actually represents the oldest Albanian financial institution in the country. 1 November 1926 and 15 November 1926 are the dates in which BKT's Shkodra and Vlora Branches were established respectively.

Banka Kombëtare Tregtare (BKT), with today's name, was established in January 1993, after the merging of the Albanian Commercial Bank (ACB) and the National Bank of Albania (NBA). Currently, BKT is the largest and the oldest commercial bank in Albania.

ACB was established in 1991 due to the sub-division of the activities of the State Bank of Albania, the main activity of which was managing the foreign trade operations of the state-owned entities with former socialist countries.

The NBA on the other hand was established in 1992 as a result of a second sub-division of the State Bank of Albania. The NBA was set up to manage the domestic trading activity of the State-owned entities. The assets and liabilities from the activities of these two entities were transferred to BKT accounts since it was first established.

Banka Kombëtare Tregtare was established as a Joint Stock Company in July 1997, with assets reaching ALL 2.7 billion.

BKT accomplished its privatization process in the year 2000. On July 6, 2000, The Albanian Parliament approved the sale contract between the Ministry of Finance and the Consortium of International Investors consisting of Kentbank (60% of shares), International Finance Corporation (20%) and European Bank for Reconstruction and Development (20%). The transfer of ownership entered into force on 17 October 2000. In November 2000, the new shareholders invested USD 10 million, resulting in the strong capitalization of the bank.

The new highly-experienced shareholders and managers brought to BKT major transformations in 2001. These transformations included the development of a new infrastructure and the restructuring of all aspects of the bank's operations from personnel and procedures to IT infrastructure. The young and dynamic team of professionals that the Bank employed was committed to achieving perfection.

In February 2003, with the decision of the Shareholders' General Meeting, the paid-up capital reached the amount of USD 14,64 million, turning BKT into the most capitalized bank in the whole Albanian banking system.

The year 2006 started with a new vision for BKT. With the authorization of the Bank of Albania and pursuant to the specific court decision issued on June 9, 2006, it was approved the transfer of 60% plus 2 of the BKT shares possessed by Kent Bank in favour of Calik-Seker Konsorsiyum Yatirim A.S.

After the decision to expand in Kosovo, BKT has opened 27 branches already, ranking as the largest Albanian bank in the region.

On June 30, 2009 Çalik Financial Services buys to IFC and BERZH theirs shares part being in this way the only BKT shareholder owning 100 % of the shares.

During 2006 – 2011, with its stable performance BKT is evaluated with different prizes on national and international levels, among which several times as "The best Bank of the Year" in Albania, "The best medium sized bank in South-eastern Europe" and also achieving its highest evaluation as "The Best Bank in South East Europe for 2009". Meanwhile for two consecutive years JCR Eurasia Rating assigns to BKT a credit rating of 'AAA (Alb)' along with a 'stable' outlook on the long term national scale, which denotes the highest investment grade. For the third time and for the fifth consecutive year the Bank of Albania evaluates BKT according to the Banking Evaluation system CAMELS with a Strong 1. At the same time, the prestigious magazine of the banking sector The Banker, part of Financial Times, has awarded BKT as Bank of the Year in Albania for two consequent years (2010 and 2011).

From 2011 and on, BKT keeps expanding its market share becoming not only the oldest bank but also the largest bank in Albania. EMEA Finance and Euromoney evaluate BKT as The Best Bank in Albania for 2012, while JCR-ER assigns AA (Alb) for Corporate Governance. 2013 becomes the most successful year of BKT, gathering the three most prestigious awards in banking from EMEA Finance, Euromoney and The Banker as The Best Bank in Albania, while BKT's CEO is awarded by EMEA Finance as "The CEO of the Year in Europe". This success is replicated also during 2014 by winning the three most prestigious awards but also by winning the Corporate Social Responsibility award by EMEA Finance and increasing the JCR Rating for Corporate Governance to AAA(Alb). Year 2015 sings the 90th anniversary of BKT in Banking Sector.

On 30th April 2018 Banka Kombëtare Tregtare Kosova Branch, changes its status from Branch of a Foreign Bank to a subsidiary Bank. Now, its banking license has changed from Banka Kombëtare Tregtare Kosova Branch, to Banka Kombëtare Tregtare Kosovë J.S.C.

04 Corporate Social Responsibility

We focus on building a better world

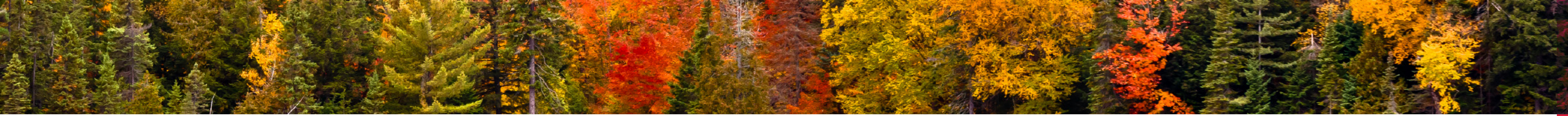
Banka Kombëtare Tregtare JSC is engaged in many projects related to the environment, community and social responsibility, in order to make a contribution to society, as well as to create value for the country by offering quality products and services and by creating opportunities for employment.

The description of the concept of social responsibility of BKT is based on the principle "Contribute to society". From this point of view, BKT directly or indirectly supports the environment, various arts, sports and educational activities. BKT's most important instruments of social responsibility are sponsorships and various charity activities that reflect the values of the institution towards society and employees.

Throughout 2020, BKT has contributed to the environment and society in various ways, as follows:

In honor of The Blood Donation Day, on 14 June 2020, BKT Kosova in cooperation with the National Blood Transfusion Center, continued blood donation, which is already a tradition of the bank for several years. BKT continues to support individual-centered actions and their support in the community. The high level of participation of bank's employees in the blood donation activity and their willingness to contribute to the health of others constantly proves that our focus should be on creating a positive impact on society.

"Your blood saves lives" is part of the bank's social responsibility program, based on the principle "Contribute to society", which addresses the support of the BKT Kosova to charitable activities.



Support and care for people with special needs in Kosovo has already taken the desired direction, while there are many organizations that help and care for people in need of special care. BKT Kosovo has signed a Cooperation Agreement with 'Autism' Association based in Prishtina, for financial support for the treatment of children with autism in a period of 12 months.

This support has also been welcomed by the association 'Autism', which thanks BKT Kosova for the support, while they hope that the example of the bank will be taken by others, like people of good will and anyone else willing to support children with autism who have a need to feel comfortable and part of society.

BKT Kosovo always ready to support tennis in Kosovo. BKT has been the main sponsor of the tournament for adult women "Ladies Open 2020", organized by the Tennis Federation of Kosovo. The tournament was held on tennis courts in the period from 30 July until 02 August 2020.

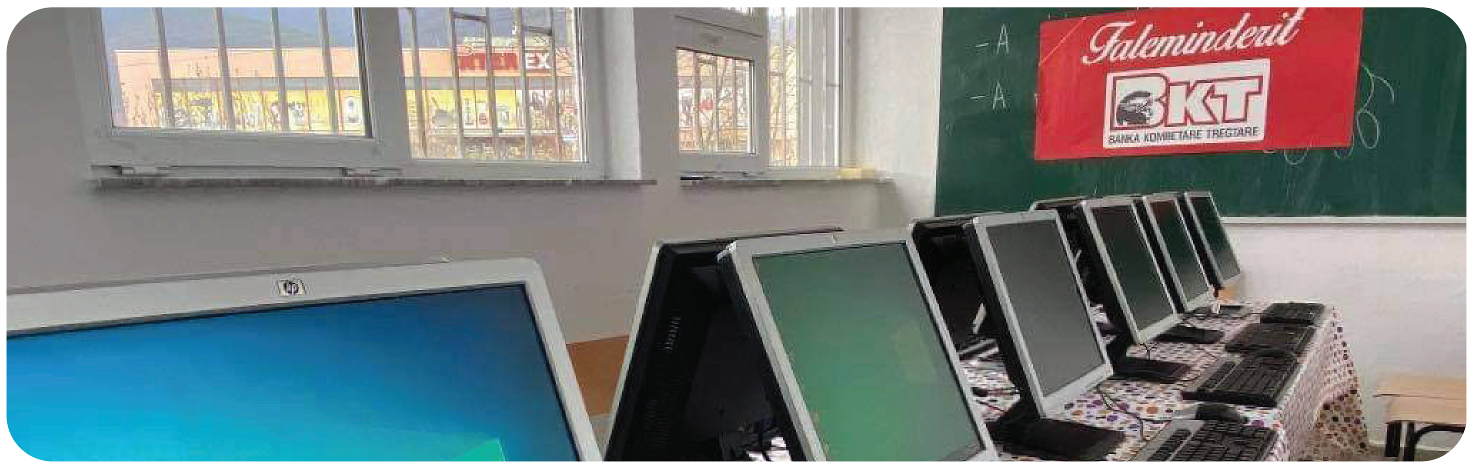
BKT Kosovo is committed to contribute to society, acting in various ways, to positively impact the lives of every citizen.

Promoting, respecting and protecting the rights of people with Down Syndrome in Kosovo and their families is the mission of the Down Syndrome Association Kosovo, which continues to seek support for the services they provide, and recently this call has been answered with understanding by BKT Kosova to assist in continuing to provide therapeutic services for children diagnosed with Down syndrome.

Furthermore, BKT Kosova helped this association by buying products that children with Down Syndrome prepared, thus providing financial support to the Association "Down Syndrome Kosova".

This support has been welcomed by the Association 'Down Syndrome Kosova' which thanks BKT Kosova for the support, while they hope that the example of this bank will be taken by others, citizens of good will, businesses or anyone else.

The donation of 15 computers for Primary and Lower Secondary School "Besim Nrecaj" has been very positively accepted by this school which had a great need for a computer Informatics Cabinet where students of this school will follow the trends of information technology developments and will facilitate the didactic methodological work of learning.



05 The Banker – Award

The Banker Award

BKT Kosova has been awarded the prestigious prize Bank of the Year 2020 for Kosovo by The Banker, which is a financial magazine published by The Financial Times.

Marking the highest growth rates during the last three consecutive years in Kosovo, and considering the strong, qualitative and promising growth and development during 2020, BKT Kosova's success is recognized internationally. BKT Kosova operates with a strong focus placed on international banking and global partnerships, as well as on enhancing its customer service with the aim to provide access to banking for everyone and from everywhere, both for businesses and individuals. Commenting on the award received, Mr. Suat Bakkal, Chief Executive Officer of BKT Kosova, says, "Our success is grounded on our ability to support Kosovo's economy, as a universal bank, with a full variety of world-class banking solutions, both for businesses and individuals. BKT Kosova is one of the fastest growing banks in Kosovo market and it runs the fastest and most innovative pace of digitalization in the banking industry of the country".

Due to the circumstances created by the pandemic, the event of awards' distribution from The Banker, took place via an organized video conference on 2 December 2020, where Mr. Bakkal participated and accepted the award for BKT Kosova. As the award was announced, Mr. Bakkal noted, "BKT Kosova is honored to win the award of The Bank of the Year in Kosovo, in a year filled with challenges brought about by the COVID-19. The award itself is a testimony to the hard work done by my colleagues of all levels in our organization. Each of us has been highly focused on supporting our strategy of transforming the Bank into a customer-focused institution, especially during the hard times brought by the pandemic. Our main objective is to offer banking possibilities everywhere, anytime and for everyone. Our bank will continue delivering real benefits for our customers, colleagues and shareholders."

About The Banker:

The Banker has been the trusted source of banking information since 1926. The Banker has navigated its way through over 90 years of banking coverage from the Wall Street Crash of 1929 to the financial crisis of 2008 with the same reputation for accuracy, authority and integrity. The Banker strives to stimulate and inform, offering an unparalleled outlook with a wide range of news, features, analysis and interviews, and in-depth coverage of all the key issues facing the financial sector.

About BKT Kosova:

BKT Kosova operates in Kosovo market since 2007. Until 2018 the bank operated as a branch of BKT Albania, whereas in April 2018, the Bank changed its status from Branch of a Foreign Bank to a Subsidiary Bank and it is ranked as one of the fastest growing banks in Kosovo banking industry. BKT has created numerous innovative and modern banking opportunities and solutions, as well as a variety of competitive banking products. BKT Kosovo is committed to serving all customer categories: Individuals, Corporations, SMEs and Micro-enterprises, while it is strongly focused on being recognized as a global banking partner. For BKT, growing means experiencing changes and adapting to new developments in every area, therefore, the Bank continuously adopts the latest technological developments in financial world by investing in the latest trends.

Chairman of the Holding, Chairperson of the Board and CEO

AHMET ÇALIK

Çalik Holding Chairman

Established by Ahmet Çalık in 1981, Çalık Holding operates in several sectors: energy, construction, real estate, textiles, mining, finance, telecommunications and digital sector. With operations spread throughout 28 countries, spanning Central Asia, the Balkans, Middle East and North Africa (MENA) regions.

Çalık Holding stands out as a major player in Turkey and even worldwide with its companies; in the energy sector with Çalık Enerji; in oil exploration with Çalık Petrol; in electrical energy distribution with YEDAŞ, YEPAŞ, KEDS in partnership with Limak, ARAS EDAŞ and ARAS EPAŞ in partnership with Kiler; in the construction sector with Gap İnşaat and Çalık Gayimenkul; in mining with Lidya Madencilik and Polimetal Madencilik; in textiles with Çalık Denim and Gap Pazarlama; in finance with Aktif Bank, BKT Albania (Banka Kombëtare Tregtare) and BKT Kosovo (Banka Kombëtare Tregtare Kosovë Sh.A); in telecoms with Albtelecom, and in digital transformation with Çalık Dijital.

Throughout its operations across the world, Çalık Holding is known for its trustworthy reputation, strong financial structure, and long-term cooperation with other international companies. It develops innovative business models and moves forward in its business lines with sustainable growth. Çalık Holding, in an effort to add permanent value to people's lives everywhere it operates, focuses on the digitalization of its business processes, services, and products developed with Industry at 4.0, Society at 5.0 and sustainability approaches it has embraced.

MEHMET USTA

Chairman's Message

Social and economic environments have become increasingly challenging due to the unprecedented effects of the COVID-19 pandemic. The effects are not only causing jeopardy in the health systems and economies, but they are also hitting the social organization and functioning of individuals. Routine is changing, so is life, and the banking industry is no exception to this.

Considering the given circumstances, the mission of the bank primarily remains on providing people with peace of mind, convenience, and opportunities in the banking sector. Banking should be easy and as such, BKT Kosova stands as close to customers as possible, making banking accessible and flexible at any time by using online platforms which constitute the core value of customer relationship management, especially in times like this. To foster this stance further, BKT Kosova has shaped its competitive advantages by bringing state-of-the-art solutions into the market, mainly dedicated to optimization of services which are used by the customers, and optimization of internal processes that help on cost saving and increase of acquisition for the bank.

Despite the pandemic situation, BKT Kosova has managed to maintain a very well liquidity level, healthy growth and strong capital. BKT Kosova has managed to have the biggest increase in main indicators across the sector in Kosovo. 2020 was a year that has characterized the success of BKT Kosova, thus after a long time maintaining the 5th rank in terms of market share, BKT Kosova in 2020 for the first time has become the 4th rank in terms of asset size in market, and the same trend of healthy accelerated growth is projected and supported by the Board of Directors.

In order for the bank to be responsive to the market and global trends toward digitalization and in order to better respond to the crisis caused by Covid-19, a lot of investments and process improvements took place during 2020. These undertakings were mainly directed to implementing the strategic plans of further digitization of the Bank, enhancing customer experience, maximizing bank's capabilities and transforming the way the bank operates. Therefore, the bank has continuously invested during 2020 and the same elevated trend is forecasted to continue during 2021, accompanied with training of the bank's workforce who are expected to exceed the expectations of customers from the bank.

Considering all the achievements and success noted in 2020, our bank in Kosovo was awarded as The Best Bank in Kosovo for 2020 by The Banker. The bank has received the Award because of the growth that the bank has achieved in all aspects of Balance Sheet and Income Statement during 2020, and because it has managed to conceptualize, launch and operate the most innovative solutions regarding the digital banking practices, all this despite the strong competition in the banking sector, despite the regulatory limitations in electronic banking and most importantly, despite the halted activities during the pandemic.

BKT Kosova aims to maintain the sustainable growth in 2021 and in the future. The bank is transforming all the processes and making them more customer-oriented and efficient. BKT will continue to be the pioneer of the digital innovation across the market and will lead the market in that regard.

Noting from all of the achievements during 2020, we, The Board of Directors, are highly appreciative for the commitment and dedication of each employee of the bank, each of the bank's customer and all stakeholders, while we commit our support to the Executive Management of the bank in conducting further the strategic plans for growth and development.

Sincerely,
Mr. Mehmet Usta
Chairman of the Board

SUAT BAKKAL

CEO's Message

BKT Kosova commenced with its transformation since 2018. The strategy was mainly focused on digitalization of conventional banking services which would on one hand increase the bank's efficiency in providing service; while on the other hand, it would meet the customer expectations and increase their satisfaction. The pandemic provided reassurance that the bank should further develop its strategy of digitalization and automation, thus the bank is heavily dedicated to enhance in this direction.

Considering the speed of pace of automation and digitalization, the beginning of the pandemic in 2020 found BKT Kosova prepared for managing the lockdown measures, as the bank was ready to provide most of its services from the distance. Among many measures taken to prevent the spread of Covid-19, BKT Kosova designed and implemented an efficient crisis management program which constantly conceptualized, produced and published extensive communication material, dedicated to the increase of the public awareness. This includes daily instructions provided via different channels, such as TV, Social Media, Website and branches.

The bank's success during 2020 is grounded on the ability of the institution to support Kosovo's economy, as a universal bank, with a full variety of world-class banking solutions, both for businesses and individuals. BKT Kosova is one of the fastest growing banks in Kosovo market and it runs the fastest and most innovative pace of digitalization in the banking industry of the country and this trend is forecast to continue further.

BKT Kosova marked a year enriched with various applications, services and products considered as breakthroughs in the local market. Digital account, Digital loan, Lending through third parties, Agro Window and Smart Invest are some of the most innovative investments that BKT Kosova launched during 2020, all aligned towards reaching the main goal of the bank, which is to be close to customers in every mode they prefer, be it physically or digitally, offering all sorts of banking services and solutions.

In addition, one of the most struggling aspects during this time, was posed by the general lockdown, which required the bank to organize the remote working for most of the employees. Considering the digitized services of the bank and the automated processes which were implemented beforehand, the organization of the work-from-home went smoothly and effectively. It also proved to be quite efficient in terms of fulfilling general duties and increasing the customer satisfaction during these turbulent times.

In every aspect of bank operations, certain important projects were implemented. The change in mindset of BKT workforce and improvements driven by the business lines and all other support functions of the organization, eventually began to yield fruitful results. The outcome of the kick-off year for the digitization of the bank, not only resulted in dramatic increase in the customer satisfaction but in financial figures as well. Business volumes, transaction numbers, income and service quality, all of them marked significant increase throughout the year.

In order to facilitate the strategic direction of the bank, the organization structure of the bank has been adapted by establishing specific tasks forces, generally regarding digitization and service utilization. Contextually, a team of colleagues were assigned in a new department called Payment Systems and Digital Banking, whereas a reorganized Client Relationship Management Department took over Product Development and Customer Service combined with Corporate Communication Unit, whose main objective was to receive and understand the expectations from customers, to customize and implement solutions based on customer behavior insights and lastly, to communicate these solutions to the general public and stakeholders. In addition, a dedicated department of Private Banking was founded in order to enhance the customer relationship management with high net income individuals.

An entire team was established to analyze and reengineer the entire internal processes of the bank. The team works closely with an outsourced company, which is consulted about the modern trends of internal processes of financial institutions. The main duties and objectives of the team are related to analyzing the current internal processes and detect the bottlenecks, which afterwards are proposed to be substituted with entire new process flows which are expected to bring efficiency for the bank and satisfaction for the staff and customers.

Marking the highest growth rates during the last three consecutive years in Kosovo, and considering the strong, qualitative and promising growth and development during 2020, BKT Kosova's success was recognized internationally. BKT Kosova operates with a strong focus placed on enhancing its customer service with the aim to providing access to banking for everyone and from everywhere, both for businesses and individuals. As such, BKT Kosova has been awarded the prestigious prize Bank of the Year 2020 for Kosovo by The Banker, which is a financial magazine published by The Financial Times, and this success is attributed to the customers, employees and all other stakeholders of the bank.

Sincerely,
Mr. Suat Bakkal
CEO & Board Member

07 Board of Directors

MEHMET USTA

Chairman of the Board

SEYHAN PENCABLIGLI

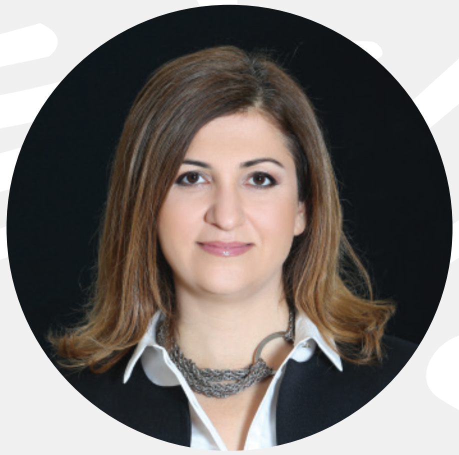
Vice Chairman of the Board

MERT TURGUT ÇALIK

Board Member

ABDURRAHMAN BALKIZ

Board Member



AYŞEGÜL ADACA OĞAN

Board Member

GALIP TÖZGE

Board Member

GÜROL GÜNGÖR

Board Member

SUAT BAKKAL

CEO and Board Member

08 Senior Management

SUAT BAKKAL

CEO and Board Member

ALBION MULAKU

Corporate and Business Banking Group Head

NJOMZA BUXHOVI AHMETAJ

Retail Banking Group Head

MUHARREM INAN

Treasury, Financial Institution and Private Banking Group Head

ELTON XHAFAJ

Internal Audit Group Head

NAIM RATKOCERI

Loan Menagement and Legal Group Head

AGON SKEJA

Finance and Administration Group Head

BKT for Everyone and Everywhere

Branch Sales

The 2020 pandemic has had an immense impact across the globe and in every aspect of life. COVID-19 has undoubtedly also had a significant impact on banks in general.

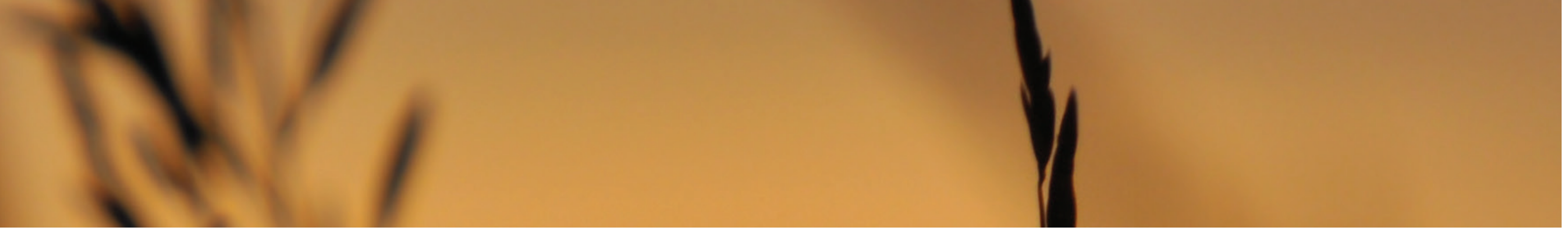
Despite the continuous reopening across the country, the prolonged closure associated with COVID-19 and the increased damage to growth of retail businesses created a lot of uncertainty, whereby very soon banks have to resume normal operations in branches.Branch staff has been in the front lines providing essential services and the same products throughout the pandemic. Customer expectations from banks were constantly moving towards development of digitalization, and the pandemic has only accelerated this.

During 2020, BKT was the first bank in Kosovo market to offer digital accounts and digital loans to customers. From the launch of digital loans, from August 2020, a considerable number of applications have been filed for this product, which generated a new loan portfolio in 2020 in the amount of more than EUR 500,000. During this time, the bank was quite active with offers and promotions for other products, as well. Despite avoiding physical contact with customers, information about products and services reached customers in alternative ways (SMS, e-mail, phone calls, etc.). In this way, alternative communication was developed in general, without hindering the development of business in extraordinary conditions.

Special care was taken of deposit customers, mainly those living abroad, enabling them to renew their deposit contracts through an e-mail confirmation. It was managed to convey assurance to customers that their assets are safe thus leading to a record of increase in deposits of over EUR 64.5 million.

In addition, the possibility of educating customers regarding the use of digital services is an important process implemented during 2020. The year 2020 has taught the bank that the traditional work system has turned in favor of clarity and versatility in dealing with unforeseen market disruptions.

These lessons learned gave the bank a new way forward.



Merchant Sales

In the wake of recent innovations of 2020, BKT Kosova brings another novelty in the Kosovo banking market, coming closer to its customers and creating the most innovative sales channel, one that the bank refers to as Merchant Sales. In light of this, the bank established the Department of Merchant Sales, which aims to provide bank customers with unique opportunities in the market to apply for consumer loans directly at bank's partners, without having to pay a visit to the bank for that purpose. The Department of Merchant Sales offers the means of providing bank customers a 20-Minute response time for credit approvals, yet again without visiting the bank and by avoiding communication with bank employees.

In 2020, the pandemic had a negative impact globally, however, in spite of the situation caused by the pandemic, the Department of Merchant Sales managed to establish partnerships with companies from various industries, from the car sales industry, to construction industry and land sales for housing, to the furniture and other household appliances industry.

This partnership resulted in generation of EUR 4.2 million loan portfolio, approved through the sales channel located at Merchants' offices who are partners to the bank.

The Department is strongly committed to establishing professional relationship with merchants based on trust, most effective communication possible, and on further expansion of the network of partners throughout the territory of Kosovo.

Number of users increased by **43%**

Active users reached **60%**

Number of transactions increased by **40%**

Volume of transactions increased by **37%**

Digital Banking

The COVID-19 pandemic has accelerated the process of digital banking due to its numerous benefits. Digital banking assisted on reduction of the need for a person to visit the physical locations of the bank and to perform manual transactions. It also provided individuals with a safer approach towards banking and enabled them to save their time.

Smartphone usage has significantly increased during the COVID-19 pandemic. Moreover, 24/7 banking services and smooth mobile banking have assisted for the digital banking to flourish.

The bank has helped customers to feel confident during a time of uncertainty by providing advice and to perform banking transactions when and how they want to.

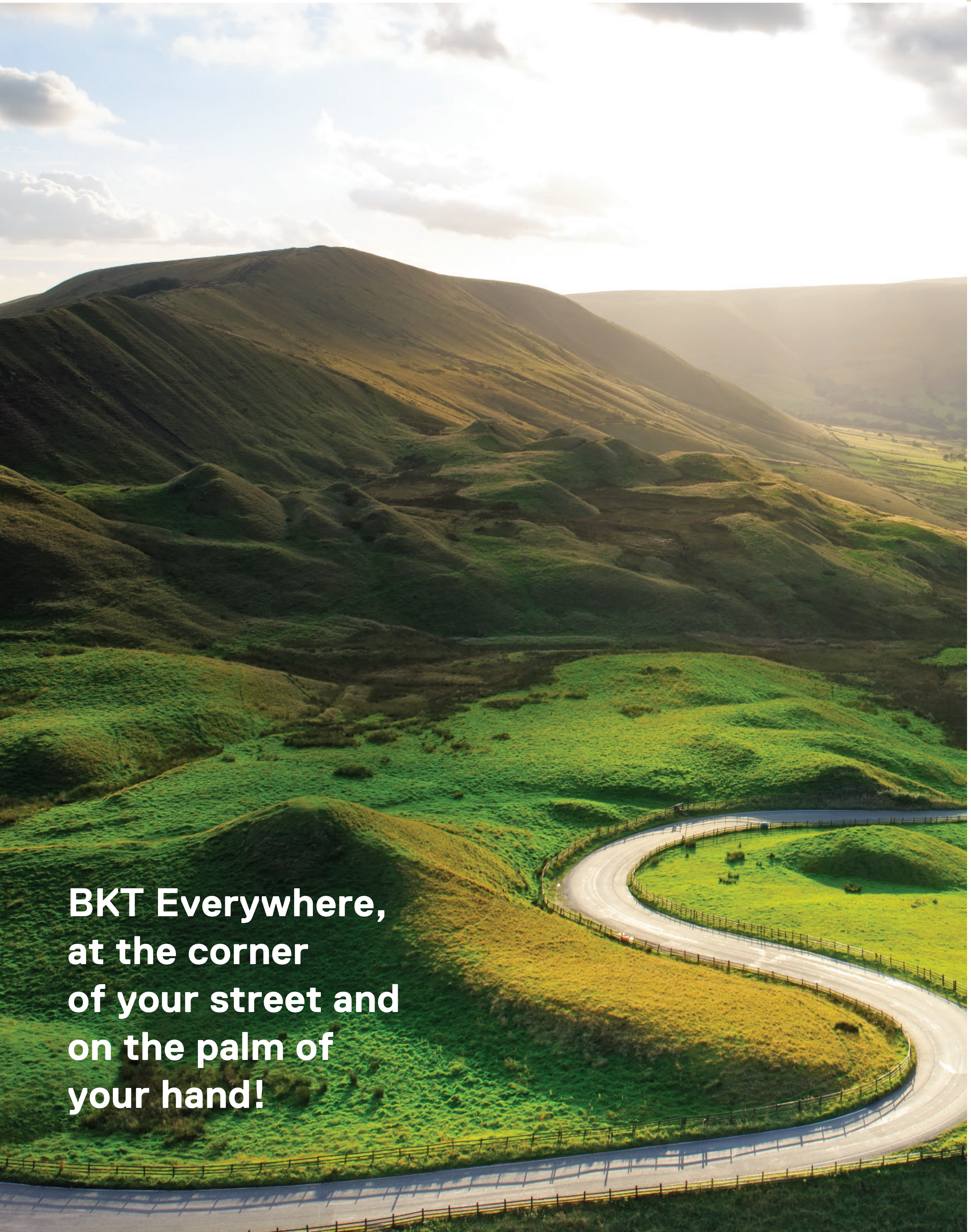
The impact of the pandemic on bank's day-to-day lives led many of customers to change the way they manage their finances, and it is worth mentioning that digital banking marked a tremendous increase.

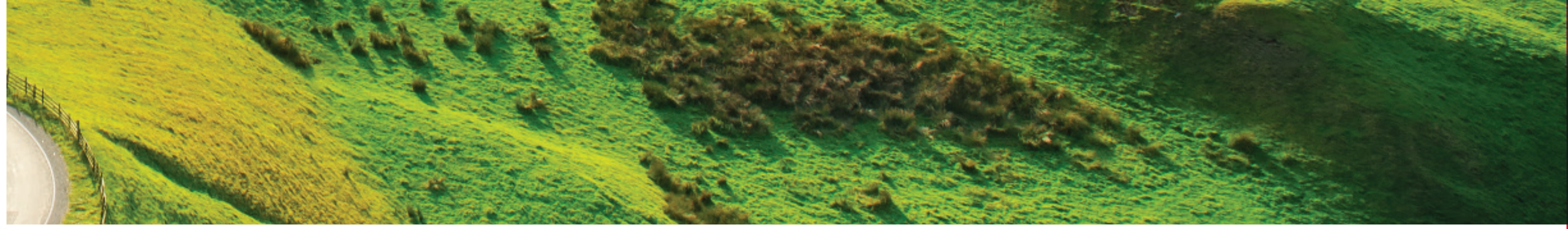
Understanding Needs Evolving Solutions

In 2020 the bank focused on re-imagining the banking experience and driving engagement across digital and physical platforms, to meet customers' needs and expectations. The investments made in response to the pandemic, have enabled to accelerate the bank's digital banking strategy.

Digital applications have been enhanced with new features and self-serve capabilities such as:

- **Digital account opening**
- **Digital Loan**
- **Digital Credit Card**
- **IVR and telephone Banking**





Covid - 19 main impacts on BKT

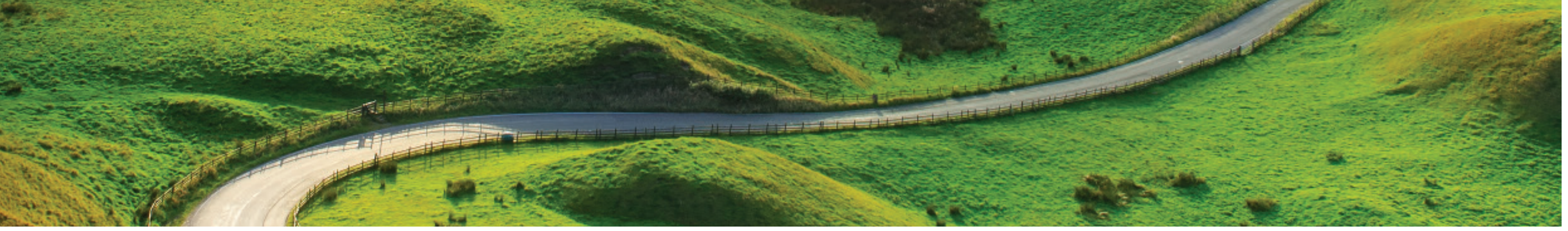
In order for the bank to be responsive to the market and global trends toward digitalization and in order to better respond to the crisis caused by Covid-19, a lot of investments and process improvements took place during 2020. These undertakings were mainly directed to implementing the strategic plans of further digitization of the bank, enhancing customer experience, maximizing bank's capabilities and transforming the way the bank operates. Therefore, the bank has continuously invested during 2020 and the same elevated trend is forecast to continue during 2021, accompanied with training of the bank's workforce who are expected to exceed the expectations of customers from the bank.

In line with the government measures and in line with the instructions provided by the Central Bank, BKT Kosova designed and provided easy solutions for the customers for their banking activities. Digital Account was a necessary decision from the bank, considering the customers' expectations and the new situation created as a result of the pandemic. After the government announced its financial support package for the most vulnerable part of the citizens, and having in mind that a large number of these customers do not possess a banking account, BKT Kosova decided to simplify the process of account opening, providing easy, healthy and fast access to banking services for every interested citizen. The opening of the digital account from distance helped clients and the bank in two major events that were organized by the Government, such as financial package to help citizens during the pandemic and withdrawal of a part of the pension trust contribution.

The Government of Kosovo came up with a financial package of aid for citizens who were mostly affected by the pandemic, especially during the first and the second quarters of 2020. This measure was welcomed by the citizens; however, it found many people not possessing an active current account with a bank. Considering that these funds were to be distributed only through bank accounts, the banks were flooded by customers who wanted to open an account, despite the strict anti-Covid measures and lockdown. BKT Kosova was the first bank in the market to launch the digital opening of the current account, which was done in a very fast and simple way. The customers applied online for the account, whereas the Customer Service Unit of the bank called them to perform the due diligence process and opened the account remotely. This produced a competitive advantage and a great supportive process for the customers who were not allowed to go out. Many clients opened the accounts and received payments from the Government, without the necessity to put their health at risk by being exposed to infection.

Similar to above-mentioned process, the Government decided to allow citizens to withdraw 10% of their pension contributions from the Kosovo Pension Trust as a measure to help them increase their cash flow and their purchasing power during pandemic. Considering that many employees in Kosovo did not have a bank current account to withdraw their money, they needed to open a bank account. The same process undertaken for Government aid, was applied for Trust pension withdrawal, thus the bank allowed clients to open digital accounts and apply for funds withdrawal without the necessity to visit the bank.

Among many "firsts and bests" implemented during 2020, the following are included:



Digital Account: The launching of the Digital Account was a necessary decision from the bank, considering the customers' expectations and the new situation created as a result of the pandemic. After the government announced its financial support package for the most vulnerable part of the citizens, and having in mind that a large number of these customers do not possess a banking account, BKT Kosova decided to simplify the process of account opening, providing easy, healthy and fast access to banking services for every interested citizen. The opening of the digital account from distance helped clients and the bank in two major events that were organized by the Government, such as financial package to help citizens during the pandemic and withdrawal of a part of the pension trust contribution.

Digital Loan: BKT Kosovo went a step further in conceptualizing, developing and implementing other online banking opportunities, so that the mission of the bank to provide banking possibilities materializes further, especially during the time when the free movement of citizens is limited and social activities are halted. In this context, for the first time in the banking industry of Kosovo, BKT Kosovo introduced the Digital Loan through mobile banking and the Digital Account which can be opened online for those affected mostly by the pandemic. Individuals are able to open their current accounts by applying online and on one click, without having to visit the branches. Once the clients apply, they receive all account-related details via email and this helps them save time, be more efficient and access banking service from distance and at any time. The bank has launched Digital Loan, as the newest product in the bank and by far the first in Kosovo's market. It is intended to all BKT clients who can apply 24/7 via mobile banking application for a personal loan dedicated to personal investments, in a process that finishes within 4 steps and 5 minutes, getting the response of approval or rejection instantly.

Merchant Network: Despite the bank's focus on digitalization of the service channels and banking transactions, human contact remains fundamental, not only in terms of expanding the business opportunities, but also in terms of preserving and enhancing the customer relationship management. A vast number of clients appreciate the physical locations of the bank and the proximity of these locations, so that they conduct fast and easy banking operations. In order to be able to provide extensive number of service points to the bank's customers, while being effective in cost management in terms of investment, the bank has signed partnerships with non-bank financial institutions (i.e. money transfers agencies), whereby the clients can be served as if they were visiting the authentic branches of the bank. Contextually, the contracted agencies, which are located throughout the entire territory of Kosovo, currently offer various banking services on behalf of the bank, such as depositing and withdrawing funds, applying for a credit product (loan, credit card or overdraft) or other account-related services. By this simple measure undertaken and promoted by the bank, the network of physical distribution points of the bank has tripled, while the fixed and variable costs of the bank in terms of network remained intact. Most importantly, apart from being available 24/7 to customers via bank's online platforms, the bank now offers the largest and most efficient branch and agency network which fosters the bank's acquisition strategies, meets customers' expectations and increases the general satisfaction in conducting banking transactions.

Merchant Loans: Innovation strategy developments, becoming more "borrower friendly" and competing to acquire new customers, has incited BKT towards development of new channels that distinguish the bank from competitors and enables financing clients through a third-party intermediary relationship. In order to expand the business possibilities of selling loan products, a new channel has been developed through merchant dealer partners by allowing potential and existing customers to obtain financing through third-party relationships. The developments in technology has improved to the point where merchants that previously may have only accepted cash or credit cards are now able to offer the option of a loan at the moment of purchase. By enabling clients to obtain financing through third-party relationships, BKT has expanded its offer to a wider range of new and existing customers

from many dealerships, merchants and retailers that handle big-ticket items such as real estate and cars, to smaller-ticket items such as furniture and white/grey/brown goods. Due to merchant dealers' wide network, BKT offers more opportunities to clients, to be financed through a wider range of borrowers due to their network relationships, and serve the client with a one-stop-shop and easy access to financing. BKT has reached a significant number of agreements with vehicle dealers, covering 90% of new cars market.

Remittances: Due to the regular and high number of remittances flow from diaspora to Kosovo, BKT increased the number of remittances channels by offering services from two companies and post bank in Switzerland. In the meantime, BKT offers clients now the opportunity to make international payments in 125 currencies through a special designed product.

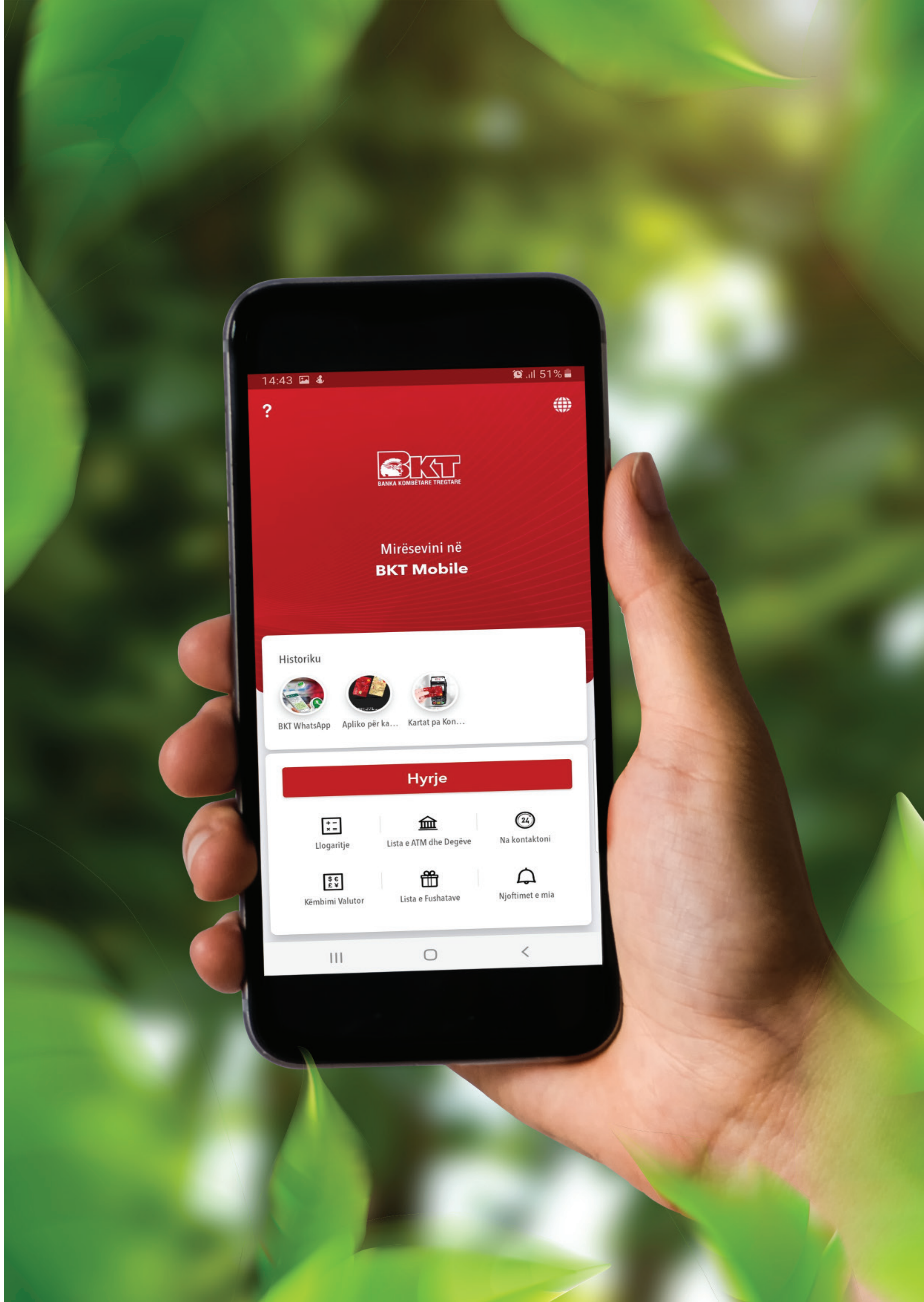
Advance Deposit: The same clients who have applied online, are now given the opportunity to apply for an advance term-deposit account. The term-deposit is offered for 6 months or 12 months of maturity, with an attractive interest rate, that is credited to the client's current account immediately, which means that the client is rewarded in advance with the interest while their principal of the deposited amount will remain untouched until the maturity of the contract. Considering the current situation, when various customers are prone to spending more out of their savings, this product comes to prominence, as the customers are given the opportunity to open a term-deposit, which on one hand helps them save money for the future, while on the other hand, the bank gives the interest right at the beginning, which is made available for spending.

Smart Invest: In light of innovations and launching of new products, BKT introduced its investment platform "Smart Invest" at the end-of-year client event on 19 December 2019. The bank considers itself privileged to pioneer the launching of the first and the only local investment platform, which opened doors for citizens of Kosovo to access international financial markets or to hedge the risks of their financial assets. "Smart Invest" gives clients direct access to diverse products such as FX, commodities and stocks, not only in top-tier markets like U.S., Germany, Japan or UK, but also in South Africa, Peru and many other markets, where they can trade with international investors. The platform itself provides the clients with direct and user-friendly access, which means that they could conduct any investments independently on their own, without the necessity to place requests to the bank. Interested clients can perform one-click investments at best market prices by using "Smart Invest" platform, either through e-banking or mobile banking. "Smart Invest" allows clients to monitor markets on their phone, where they can also read instant related news, receive alerts and notifications, place orders and do technical analyses. Furthermore, clients are able to see the history of their investments, performance analysis, account movements and much more information with complete transparency.

Kondor: BKT Kosovo has undertaken the project “Kondor” to increase automation in Treasury processes. This platform where all Treasury products are booked, is used by international banks as well. The platform allows straight-through processing "STP" for transactions done in international platforms. Following limits are defined in platform so that respective departments can be notified and monitor automatically country limits, counterparty credit and settlement limits, position limits, stop-loss limits and user limits. Since product is linked to international platforms such as Bloomberg and Reuters, it calculates mark-to-market "MTM" values and other risk metrics on a daily basis. This treasury platform helps to increase efficiency significantly thanks to automation of majority of processes including accounting, back-office, control and risk functions.

IVR System: During 2020 the bank launched many new solutions and products, however, new applications brought to the bank as breakthroughs to the market are related to customer service journey. IVR and Telephone Banking are the new applications installed in contact center, which allow customers to be informed about their bank statements and conduct various banking transactions without the necessity to talk to an agent. The entire banking can be done by using the credentials of the bank card of the client and the keyboard of their mobile phone.

Complaints System: Another application is related to the customer complaint management, which helps the bank responsible employees to better manage various inquiries and complaints from customers, according to the more effective internal procedures and in line with the regulatory requirements. Most of the complaint management process is organized in an automated way, which constantly provides customers and staff with alerts and insights about complaint resolution.



11 Corporate and Business Banking Group

The year 2020 was planned very ambitiously and with diverse targets and objectives for Corporate and Business Banking Group. However, due to unexpected event of the pandemics, all the sectors were affected and this affected the banking sector, as well. Still, banking sector remained supportive for businesses, by providing different approaches on postponing installments or re-structuring their debt in order for businesses to overcome easily the situation created during the pandemics.

The Corporate and Business Banking Group, despite the pandemics, managed to maintain significant increase in overall business loans and business deposit portfolio. While the overall market in business loans increased for ~ 8.53%, the BKT business loan portfolio increased for ~18%. Accordingly, the bank managed to increase the market share on business loans from ~ 10% during 2019 to 11.2% in 2020. Moreover, the positive trend continued for business deposits, while BKT managed to increase deposit portfolio by 17.5% and market share participation for deposit reached 12.6%. The quality of the loan portfolio is a priority for business group, besides the increase in portfolio, the percentage of non-performing loans remains below the overall NPL in sector.

The approach of BKT business group for year 2020 was principally maintaining the partnership with the existing clients, meaning that they will receive the necessary support due to the situation created as a result of the covid-19. The support was designed for all business segments whether they are SME-s, Micro or other business segments.

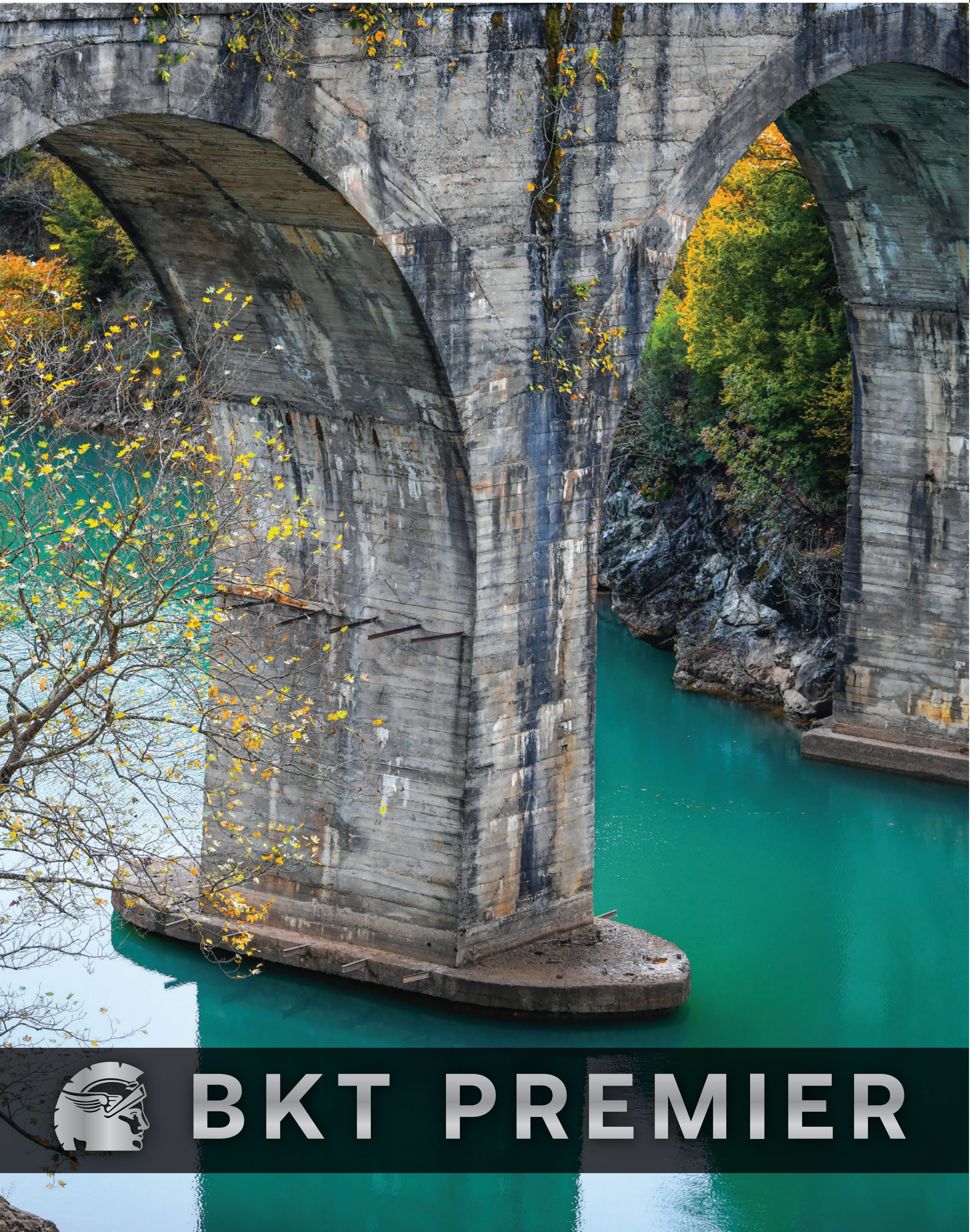
During pandemics, bank had special focus on financing and supporting agriculture sector, especially farmers and agro businesses, in order to help them increase their capacities as well as overcome the situation of pandemics. High importance was given to this sector by offering wide range of products for enabling these businesses to develop more and contribute to the overall economy of the country.

In 2020, Agro Window under Kosovo Guarantee Fund limit was used and increased in order to facilitate the access to finance for the farmers and agro businesses. Bank continued to finance value of chain for agriculture sector by expanding the network with other partners and in designing new products such as loan for financing equipment, storage boxes, etc.

The support to businesses continued in several fields, agreements and projects continued in 2020 such as: agreement with municipalities for financing Agro and micro clients, project for production of dairy products for financing their network of suppliers (smaller farms and individual farmers) which had a positive impact in farmers' well-being in general by increasing their income.

The trade finance business is an important segment in the overall business of the group, hence the bank continued to have stable market share in this category, and by the end of 2020 the bank participated with 12% in trade finance (LG&LC) in the market. For all the bank's businesses partners that altered their activities due to Covid 19 and needed guarantees in their business activities, the Bank was available for financing them in order to help them maintain their business during these times.

The Corporate and Business Banking Group has continuously invested in digitalization of services. Due to pandemics, online transactions have increased rapidly and new channels were created and updated to ease clients' transactions. Alternative Banking Channels such as business e-banking and mobile banking have been advanced by offering additional features so the bank can create flexibility for the clients.



Treasury and Financial Institutions

Kosovo citizens have been trading in international markets in traditional way by contacting banks which limit them with working hours. This poses a great risk for them to manage their investments. Especially in extraordinary times of pandemic, it has been more important for clients to have direct control over their positions. In this regard, BKT has pioneered to provide first local investment platform which can be accessed through both e-banking and mobile banking channels at any times. Besides, bank has developed first daily bulletin “Premier Daily” in Albanian language to support clients for their investment decisions considering lack of such sources in Albanian.

With increased volatility in financial markets during pandemic, it has been crucial to be able to monitor balance sheet risks. The bank has placed significant focus on asset and liability management due to increased capital, foreign exchange, interest rate and liquidity risks. In this regard, the bank has finalized the project to automate Treasury functions related to accounting, control and risk management. New platform provided Treasury Department with ease of dynamic balance sheet management and monitoring during volatile times. Furthermore, bank has met all client requests on a timely manner in all currencies thanks to efficient and stable liquidity management practices.

Despite challenging market conditions, Treasury has continued being active in local financial markets. The bank has contributed to financial stability of securities market by actively participating in primary market auctions and secondary market transactions. Continuous appetite for development resulted in the first repurchase transaction with a non-bank institution in the country. This initiative has been important for improving liquidity of local bonds.

Even though it was not possible to meet physically with international financial institutions, Financial Institutions Department throughout the year continued being active in international markets by participating in primary market transactions while enhancing cooperation with reputable financial institutions.

Management of Remittances

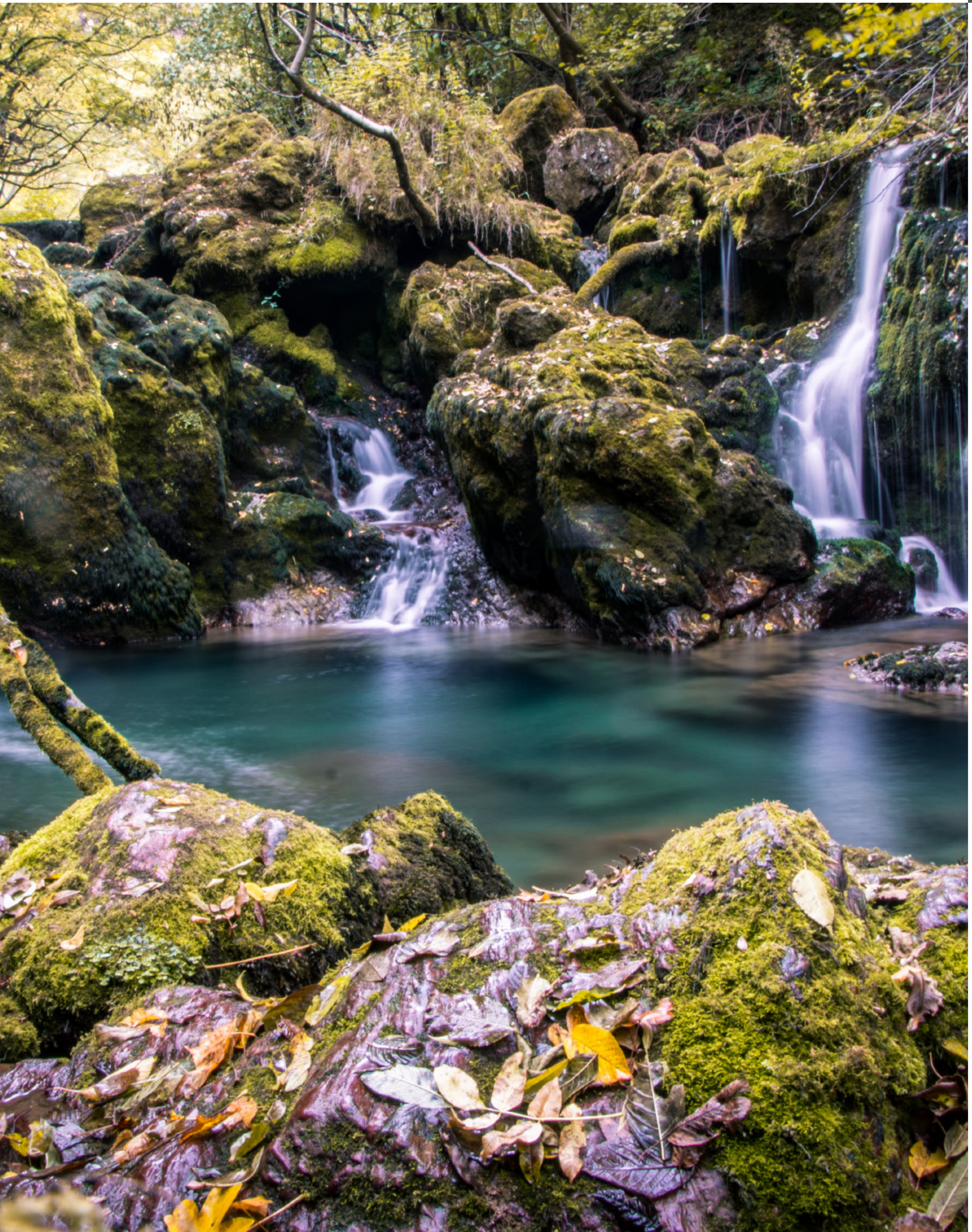
Being a consumption driven economy, country needs external financing which comes generally in means of remittances. After burst of pandemic, the flow of remittances has been more critical for sustainability of economy. As international movement was restricted, the diaspora had to use banking channels for transferring funds. The bank has increased alternatives to meet needs of citizens in more convenient and less costly ways. As the majority of the Kosovo diaspora is mainly located in Switzerland, we offered our clients a special channel through financial service unit of Swiss Post.

Additionally, bank diversified payment channels, where clients are able to receive from and send certain amount of money to a large network of locations through RIA and UPT network with lower costs. Simultaneously, the bank has focused on constantly improving the service quality for achieving higher customer satisfaction. In this direction, the bank has undertaken a project for automation of international payments which also enables tracking destination of the payment.

Private Banking

The bank has established Private Banking Department with motivation of providing differentiated and improved services to its clients. Marking highest growth rate in the banking sector in last three years, bank has reached a significant client base. Therefore, it necessitated establishment of Private Banking Department to provide customized services to a special segment of clients by differentiating products and services. In this direction, bank intends to create portfolio management structure in branches to increase customer satisfaction by standardizing a certain level of service. This will constitute one of the milestones in future transformation of the bank.

13 Loan Management and Legal



According to the Central Bank of the Republic of Kosovo (CBK), banking sector until the outbreak of Covid-19 pandemic, operated in an environment with low risk level. The spread of Covid-19 pandemic, as of the second half of March 2020, and the containment measures taken continuously, have had an impact on the increase of risks to which the banking sector is exposed.

In this regard the effect of Covid-19 pandemic will directly affect the level of non-performing loans (NPL), which is expected to increase also in the following period, as currently it is at a quite low level, as this will be influenced by Covid-19 pandemic in Kosovo's economy. This is as a consequence of the decline of households' income, businesses' income and other halted economic activities.

Despite the increasing risks caused by Covid-19 pandemic, financial soundness indicators of the banking sector continued to remain at a satisfactory level during the year 2020. NPL, although having marked an increase compared to the previous year, by closing the year 2020 with NPL rate to total loans at 2.7%, comparing with Dec 2019 that was 2%, still their level to total loans continues to be low and they are quite well provisioned against the possible losses that may be caused. NPL rate to total loans remains at the low level compared to the regional countries (South-east Europe).

The collection activity along with write-offs of Non-Performing Loans from bank balances impacted the further improvement of credit portfolio quality. A part of the declining effect in NPLs is also attributable to other factors such as CBK relief measures and decisions on encouraging the Banks to consider borrower's request on performing moratorium periods and loan restructuring during the period of economic recovery due to Covid-19 pandemic, by avoiding engagement in the
liquidation of collateral, using out-of-court mechanisms.

Thus, as a result of quick and flexible measures taken by the banks in banking sector on implementing relief (facilitations) of loan terms and conditions according to the guidelines of CBK, it contributed to the solvency of these borrowers as well as better risk management practices in the banks. Consequently, these factors and measures have been reflected in lower sources of non-performing loans and their recovery over the period.

Regarding BKT Kosova, the quality of credit exposures is maintained and monitored through a diligent process of identification, management and mitigation of credit exposures for all portfolio segments and products. During the year 2020, the Loan Collection & Restructuring Department has been affected by the scope of duties and responsibilities, which reflected with more proactive and flexible measures and working hours, direct involvement and support through all process on performing high level of borrower's request on moratorium periods and loan restructurings due to pandemic as well as higher monitoring and collection activity by also involving branches in regular monitoring activities. Furthermore, during this year, field visits were limited during lockdown period, whilst other forms of contacts, communications with clients were in the focus of Department in order to have early reaction and prevention measures towards clients showing difficulties in repayment.

In terms of NPL management performance, during 2020 BKT Kosova managed to further decrease the NPL ratio to 1.99% comparing with Dec 2019 that was 2.65%. it is needed to emphasize the decreasing trend of NPL as a result of collection and closure of some old and problematic cases.

Year 2020 will be remembered as a very challenging year in terms of collection and loan management which resulted with lowest NPL of the Bank in the last couple of years. To further progress with its NPL management performance, BKT Kosova is working on strengthening its structures, systems and resources by applying new ideas and best practices.

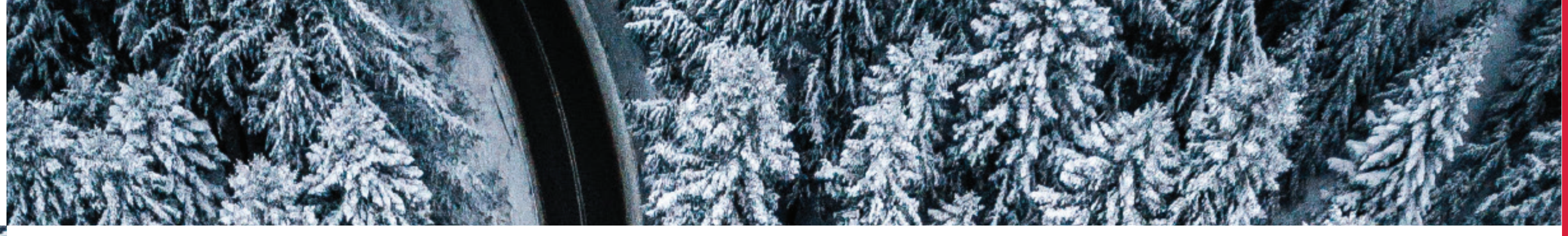
During 2020, despite the Covid-19 pandemic and the circumstances created by the pandemic, legal issues were addressed in line with legal requirements and business and clients' needs, thus providing appropriate legal solutions that have contributed to the achievement of objectives and priorities set by the bank. Although courts and other law enforcement institutions during the pandemic period had limited activities, Legal Department used the periods when there was activity by law enforcement institutions to take the necessary legal actions ensuring the necessary legal protection of bank interests.

In addition to daily activities, the Legal Department has participated in various activities, online meetings, discussions in various institutions (central and local), in order to find solutions regarding the implementation of Government decisions in the interest of clients by proposing and providing concrete legal solutions always in the best interest of customers and the bank.

The year 2020 was a challenging year due to Covid-19 pandemic. However, Loan Assessment Department during this year has coordinated activities in a way that all loan requests to be treated on time by meeting the client financial needs. On the other hand, besides daily operations with limited staff resources the bank still achieved many other milestones by contributing on process automation and process improvements.

Hence, the relevant department with related parties were involved on the projects for loan digitalization and other internal projects by reviewing and evaluating existing processes and looking forward to optimizing retail and business operations work for faster and more accurate decision-making process.

14 Risk Management Group



As a banking financial institution with the focus of supporting clients' financial needs in terms of short or long investments and maintenance of their funds, the Risk Function of the bank has undertaken to ensure a financial stability and security for both sides the organization and its clients. For an efficient and healthy risk management function, the approach of putting in place internal control points over each processes/activity in the first/second line of defense followed by the independence Risk Management Group (including function of Credit Risk, Market and Liquidity Risk, Operational Risk) in the frame of structure organization with a direct reporting to Risk Management Committee and Board of Directors is applied. The Risk management function is engaged in development of credit risk, market risk, liquidity risk and operational risk policies in accordance with the bank's strategy and its bank's risk appetite and operating in line with legislation and regulatory framework requirement.

Details of the risk management function in regard to the credit risk, market and liquidity risk are presented in the financial audited report.

The extraordinary risk event COVID-19 during the year 2020, in particular impacted the banking sector by volatizing market conditions, deteriorating credit quality and business continuity among other things. With the deterioration of economic sector which directly impacted the creditworthiness of business and individual clients, the risk function had to react quickly to adopt new processes/practices in accordance to the new government lockdown measures and new regulatory requirement in order to ensure a business continuity and financial stability by managing especially credit, market and liquidity risk. The policies and procedures have been revised by re-allocating risk-based limits, reflecting new regulatory requirement, following best risk practices and related COVID-19 guidelines over the credit provisions, stress test modeling, rapid credit risk analysis, collateral re-evaluation but not limited too.

With the suspension of particular existing Central Bank Regulation and new instruction in force, CBK aimed to facilitate measures for banking sector and relief clients from fulfillments of financial obligation toward banks within a certain period through moratorium and restructuring of their debt in order to maintain a financial stability for banking sector and clients as well. In response to this, the bank reacted by modifying its risk policies to enable clients a postponement of their debts through which indirectly supported the certain economy sectors of the country as well. With the increase of the credit risk due to uncertainty of COVID-19 impact over the economic sectors, through a separate function of managing the default risk, practices over portfolio monitoring and recovery approaches were strengthened. As a result, through a proper risk management function and coordination within bank's processes and collaboration with clients and CBK, the bank has reached to manage its credit risk successfully during crisis period within the year 2020.

Due to high market volatility and client's behavior, the bank incorporated the COVID-19 scenarios in stress testing and adjusted existing models in order to assess the potential impacts and ensure appropriate action under the crisis and ensure an efficient use of capital and maintaining a stable liquidity level.

Digitalization of products and services reached higher than bank's strategic plans during the pandemic time as a form of faster response and solution offers to clients which due to lockdown had limited physical access in banking services. Thus, with the change and simplification of the operational processes the risk function was in place to ensure the adequacy of controls to mitigate the risk arising from new processes by clients and bank's employees as well.

15 Human Resources and Training

Since the end of 2019, the Human Resources Department is committed to maximizing the performance of the experienced workforce to support the Business Lines in achieving annual targets set for 2020.

2020 was a very challenging year, but the bank operated with high and clear goals to reach the peaks of success as a bank in the Kosovo market. In January and February 2020 alone, 33 new employees were recruited, but the preparation for achieving the objectives was challenged and slowed down in March, when lockdown measures began as protective measures against the Pandemic.

Thus, the work with Human Resources was in one way or another oriented towards another direction, in terms of being more focused on the health and safety of employees in the workplace, changing the daily work routine as well. In addition, there was an impact on planning of training and recruitment, where everything was oriented towards remote working and BKT adapted to the circumstances in terms of use of technology.

Remote working, although previously intended for some positions in BKT, became necessary during this period. BKT was mobilized by creating remote access for specific Departments to ensure work continuity.

The advantages of working from home had a positive impact on employees in order to protect the public health, and the positive effect was obvious especially among the parents who had to take care of their children as a result of closure of kindergartens and schools.

At the same time, the Department of Human Resources used this opportunity to use data on working from home during this time, to create such a routine in the future as well.

In most cases, work from home functioned very well and without problems and in the meantime it became very welcome for the employees, who from time to time had to adjust the working hours and care for family members in need.

A work environment from home extended the working hours for many employees, who tried to complete each task regardless of the formal working hours, and for this reason HR created and identified ways of assessment for employees who have worked from home in a way as not to have differences from all other employees.

Remote work will now be part of the job and a choice for future employees in adapting their lifestyle and providing services to the employer. A combination of work from home and work environment will be a good opportunity to be used in the future as an incentive and flexible approach that BKT may offer as an employer.


“Work hard in silence,
let your success be your noise.”
- Frank Ocean -

Banka Kombëtare Tregtare Kosovë Sh.a

Financial Statements as at and for the year ended December 31, 2020
with the Independent Auditor's Report there-on

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Grant Thornton

Independent Auditor's Report

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To the Shareholders of

Banka Kombëtare Tregtare Kosovë Sh.a.

Opinion

We have audited the accompanying financial statements of Banka Kombëtare Tregtare Kosovë Sh.a. ("the Bank"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Kosovo, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of Banka Kombëtare Tregtare Kosovë Sh.a. as of and for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion in their report on 25 March 2020.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Grant Thornton

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance of Banka Kombëtare Tregtare Kosovë Sh.a. regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton LLC
Prishtina,
30 April 2021

Suzana Stavrik
Statutory Auditor

Banka Kombëtare Tregtare Kosovë sh.a.
Statement of Financial Position as at 31st December 2020
(Amounts in EUR, unless otherwise stated)

	Notes	December 31, 2020	December 31, 2019
Assets			
Cash and balances with Central Bank	6	102,398,903	68,789,883
Placements and balances with banks	7	30,402,526	37,244,984
Financial assets at fair value through other comprehensive income	8	101,259,272	105,911,832
Financial assets at amortized cost	8	28,230,433	7,697,413
Due from BKT Albania	25	38,658	25,139
Loans and advances to banks and other syndication loans	9.1	32,008,794	-
Loans to customers, net	9.2	351,964,719	305,985,957
Property and equipment	10	15,957,343	2,343,011
Right of use assets	10.1	2,053,083	2,799,428
Intangible assets	11	43,633	12,052
Income tax receivables	27	95,494	-
Deferred tax asset	27	300,337	277,547
Other assets	12	6,981,921	5,647,780
Total assets		**671,735,116**	**536,735,026**
Liabilities			
Customer deposits	13	539,308,400	449,152,204
Due to banks	14	12,509,157	4,661,073
Liabilities based on Repo Transactions	14	22,066,897	-
Due to BKT Albania	14	1,320,571	774,405
Income tax liability	27	-	196,960
Provisions	24	654,968	536,621
Accruals and other liabilities	15	1,978,468	2,299,295
Lease liabilities	10.1	2,116,340	2,841,154
Borrowings	16	18,247,148	22,283,169
Total liabilities		**598,201,949**	**482,744,881**
Equity			
Share capital	17	31,000,000	22,000,000
Accumulated profit from previous years		29,018,336	22,612,980
Profit for the year/ period		11,053,285	6,113,354
Fair value reserve		2,753,548	3,263,811
Other reserves		(292,002)	-
Total shareholder's equity		**73,533,167**	**53,990,145**
Liabilities and shareholder's equity		**671,735,116**	**536,735,026**

The audited statement of financial position is to be read in conjunction with the notes set out in pages 7 to 81 that form part of the audited financial information.
The audited financial information was authorised for release by the Board of Directors on 21 April 2021 and signed on its behalf by:

Suat Bakkal
CEO and Board Member

Agon Skeja
Head of Finance and Administration Group

Banka Kombëtare Tregtare Kosovë sh.a.
Statement of profit or loss and other comprehensive income for the year ended 31st December 2020
(Amounts in EUR, unless otherwise stated)

		For the year ended December 31, 2020	For the year ended December 31, 2019
Interest income calculated using the effective interest method	18	25,699,458	21,243,614
Interest expense calculated using the effective interest method	19	(5,495,560)	(4,220,136)
Net interest income		**20,203,898**	**17,023,478**
Fees and commissions, net	20	4,357,849	3,637,206
Foreign exchange revaluation gain, net		79,388	(96,778)
Gain/(Loss) from sale of Investment securities measured at FVOCI	8	2,313,753	974,325
Profit / (loss) from FX trading activities, net		33,688	262,033
Other (expenses) / income, net	21	243,078	(1,776,426)
Total non-interest income, net		**7,027,756**	**3,000,360**
Operating expenses			
Personnel expenses	22	(4,994,245)	(4,315,654)
Administrative expenses	23	(4,991,964)	(4,762,223)
Depreciation and amortization	10, 10.1, 11	(1,532,998)	(1,726,638)
Total operating expenses		**(11,519,207)**	**(10,804,515)**
Impairment losses on loans to customers	9	(3,241,489)	(2,531,376)
Impairment losses on financial assets, other than loans to customers, and provisions for off balance items	24	(253,116)	(4,015)
Profit before income tax		**12,217,842**	**6,683,932**
Income tax expense	**27**	**(1,164,557)**	**(570,578)**
Current year income tax expense		(1,187,347)	(1,061,431)
Deferred income tax		22,790	490,853
Profit (Loss) for the period		**11,053,285**	**6,113,354**
Revaluation of investment securities		(510,263)	3,573,173
Total of other comprehensive income for the period		**(510,263)**	**3,573,173**
Total comprehensive income for the period		**10,543,022**	**9,686,527**

The audited statement of comprehensive income is to be read in conjunction with the notes set out in pages 7 to 81 that form part of the audited financial information.

	Share capital	Fair value reserves	Other reserves	Retained earnings	Total
Balance as at 1 January 2019	**17,000,000**	**(309,362)**	**-**	**22,612,980**	**39,303,618**
Transactions with owners recorded directly in equity					
Contributions by and distributions to owners	-	-	-	-	-
Increase in share capital	5,000,000	**-**	**-**	**-**	**5,000,000**
Total transactions with owners recorded in equity	**5,000,000**	**-**	**-**	**-**	**5,000,000**
					-
Total comprehensive income for the year					-
Profit for the year	-	-	-	6,113,354	**6,113,354**
Net change in fair value of financial assets through other comprehensive income	-	3,573,173	-	-	**3,573,173**
Total comprehensive income for the year	**-**	**3,573,173**	**-**	**6,113,354**	**9,686,527**
Balance at 31 December 2019/01 January 2020-as stated	**22,000,000**	**3,263,811**	**-**	**28,726,334**	**53,990,145**
Effect from transition from CBK reporting to IFRS reporting according to CBK requirements	-	-	(292,002)	292,002	-
Balance at 31 December 2019/01 January 2020-restated	**22,000,000**	**3,263,811**	**(292,002)**	**29,018,336**	**53,990,145**
Transactions with owners recorded directly in equity					
Contributions by and distributions to owners	-	-	-	-	-
Increase in share capital	9,000,000	**-**	**-**	**-**	9,000,000
Total transactions with owners recorded in equity	**9,000,000**	**-**	**-**	**-**	**9,000,000**
Total comprehensive income for the year					
Profit for the year	-	-	-	11,053,285	11,053,285
Net change in fair value of financial assets through other comprehensive income (Note 8)	-	(510,263)	-	-	(510,263)
Total comprehensive income for the year	**-**	**(510,263)**	**-**	**11,053,285**	**10,543,022**
Balance at 31 December 2020	**31,000,000**	**2,753,548**	**(292,002)**	**40,071,621**	**73,533,167**

The audited statement of changes in equity is to be read in conjunction with the notes set out in pages 7 to 81 that form part of the audited financial information.

	Notes	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Cash flows from operating activities:			
Profit before income tax		12,217,842	6,683,932
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Interest expense	19	5,495,560	4,220,136
Interest income	18	(25,699,458)	(21,243,614)
Depreciation	10, 10.1 11	1,532,998	1,726,638
Gain/ Loss on disposal of property, plant & equipment		-	(50,887)
Gain/loss on sale of investment securities		(2,313,753)	(974,325)
Gain on recovery of written off loans to customers		(261,782)	(201,765)
Write-off of loans to customers		622,978	3,233,656
Other non-monetary income		-	(1,900,666)
Impairment of loans to customers, net		3,241,487	1,198,386
Impairment of other financial assets, net		253,116	4,015
Impairment of other assets		-	225,002
Cash flows from operating profit before changes in operating assets and liabilities		**(4,911,012)**	**(7,079,492)**
(Increase)/decrease in operating assets:			
Restricted balances with Central Bank		(4,165,605)	(5,765,776)
Placement and balance with banks		(3,043,411)	(3,044,223)
Loans to banks and other syndication loans	9.1	(32,000,000)	-
Loans to customers	9.2	(49,405,274)	(60,208,934)
Due from BKT Albania		(13,519)	12,776,497
Other assets		(1,429,937)	(921,209)
		(90,057,746)	**(57,163,645)**
Increase/(decrease) in operating liabilities:			
Due to customers		89,997,119	97,361,361
Due to banks and syndication loans		7,873,869	(13,177,663)
Due to BKT Albania		22,613,063	774,405
Accruals and other liabilities		(679,846)	78,178
Lease liabilities		78,350	0
Impairment losses on financial assets, other than loans to customers, and provisions for off balance items (to be zeroed)		(33,072)	0
		119,849,483	**85,036,281**
Interest paid		(5,282,727)	(3,686,157)
Interest IFRS 16 paid		(78,340)	(99,994)
Interest received		24,770,121	19,391,991
Income taxes paid		(1,024,997)	(508,768)
Net cash flows from / (used in) operating activities		**43,264,782**	**35,890,216**
Cash flows used in investing activities		-	-
Proceeds from sale of investment securities		(13,366,534)	(31,378,004)
Purchases of property, equipment and intangible assets		(14,432,566)	(1,447,055)
Proceeds from sale of Properties, plant & equipment		-	50,887
Net cash from/ (used in) investing activities		**(27,799,100)**	**(32,774,172)**
Cash flows from financing activities			
(Repayments of)/ Proceeds from due to banks		(4,037,222)	18,179,999
Paid in capital		9,000,000	5,000,000
Change in lease principal		(803,153)	(801,412)
Net cash generated from financing activities		**4,159,625**	**22,378,587**
Net increase in cash and cash equivalents		**19,625,307**	**25,494,631**
Cash and cash equivalents at the beginning of the period		71,510,222	46,015,591
Cash and cash equivalents at the end of the period		**91,135,529**	**71,510,222**

The audited statement of cash flows is to be read in conjunction with the notes set out in pages 7 to 81 that form part of the audited financial information.

1. General

Banka Kombëtare Tregtare Kosovë sh.a (the "Bank") is a commercial bank offering a wide range of universal services. The Bank provides banking services to public and privately-owned enterprises and to individuals in Kosova.

Banka Kombëtare Tregtare J.S.C. Kosova (the "Bank") is a fully owned subsidiary of Banka Kombëtare Tregtare J.S.C in Albania. BKT - Kosova was registered on 30 August 2007 with the Central Bank of Republic of Kosova ('CBK') to operate as a foreign branch in the Republic of Kosova and is subject to CBK regulations. On April 30, 2018, Banka Kombëtare Tregtare Kosova Branch changed its status from foreign branch to Joint Stock Company. Now its bank license has changed from Banka Kombëtare Tregtare Kosova Branch to Banka Kombëtare Tregtare J.S.C Kosova. The Bank offers a wide range of products and services to public and privately-owned enterprises and to individuals in the Republic of Kosova. The main source of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both EUR and foreign currency. BKT offers a variety of corporate and consumer loans, debit and credit cards, ATMs, sophisticated alternative channels, qualified international banking services and various treasury products. The network of BKT Kosova consists of 26 units. Seven units are located in Prishtina, and the other units are located in Prizren, Peja, Gjilan, Ferizaj, Mitrovica, Gjakova, Vushtrri, Fushe Kosova, Podujeva, Drenas, Rahovec, Viti, Lipjan, Prishtina International Airport and Skenderaj. The number of employees at the end of 2020 was 389 (2019: 358).

Share capital
At 31 December 2020 the authorised share capital is EUR 31,000,000 (2019: EUR 22,000,000). The Bank is a joint stock company 100% owned by Banka Kombëtare Tregtare J.S.C in Albania. All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends, if declared. All shares rank equally with regard to the Bank's residual assets.
Upon the Shareholder's Decision dated 25 June 2020, the Bank share capital was increased from EUR 22,000,000 to EUR 31,000,000 by capital injection performed on 29 June 2020.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). They have been prepared under the assumption that the Bank operates on a going concern basis.

The Bank has considered the impact of Covid-19 in preparing their financial statements. While the specific areas of judgement may not change, the impact of Covid-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event.

More information about circumstances caused by the global pandemic of COVID-19 that affected Bank's operations and activities in 2020 is disclosed in Note 4. These circumstances did not affect the appropriateness of the going concern assumption of the Bank.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for Financial instruments measured at FVOCI which are measured at fair value.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2. Basis of preparation (continued)

(c) Functional and presentation currency

These financial statements are presented in EUR, which is also the Bank's functional and presentation currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4 and 5.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction.

The assets and liabilities of foreign operations are translated into Euro at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into Euro at spot exchange rates at the dates of the transactions. Foreign currency differences on the translation of foreign operations are recognised directly in other comprehensive income.

The Bank during the normal course of business enters into spot foreign exchange transactions with settlement dates 1 or 2 days after the trade date. These transactions are recorded in the financial statements on the settlement date. Foreign currency differences are recognised in profit or loss on the settlement date.

(b) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

3. Significant accounting policies (continued)

(c) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(e) Current and deferred income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Bank considers the impact of uncertain tax positions and whether additional taxes and interest may be due.

The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.
The applicable corporate tax rate in Republic of Kosovo is 10% (31 December 2019: 10%). Under Kosovo tax legislation system, tax losses can be carried forward to be offset against future taxable income for up to seven years.

3. Significant accounting policies (continued)

(f) Financial assets and liabilities

(i) Recognition

The Bank initially recognises financial assets and liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset, with the exception of spot foreign exchange transactions which are recognized on settlement date. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value corrected by (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(ii) De-recognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

3. Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(ii) De-recognition (continued)

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Central Bank of Kosova “On Credit Risk Management”. The write off procedure is initiated after the following conditions are met:

- Credit exposures not covered by collateral, either in pledge form or in mortgage form, classified as non-performing exposure shall be written off from the balance sheet within eighteen (18) months of the period when they are classified in this category;
- Credit exposures that are covered by pledged collateral classified as non-performing must be written off from the balance sheet within thirty-six (36) months of the period when they were classified non-performing;
- Credit exposures that are covered by collateral in the form of mortgages classified non-performing exposure must be written off from the balance sheet within sixty (60) months from the period when they are classified as “non-performing”.

(iii) Classification and initial measurement of financial assets

All financial assets are initially measured at fair value adjusted for transaction costs (where applicable).
Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)

The classification is determined by both:

- the entity’s business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

3. Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(iii) Classification and initial measurement of financial assets (continued)

All income and expenses relating to financial assets are recognised in profit or loss.

– ***Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)***

As per the new standard, one of the conditions for financial assets to be classified either under 'amortised cost' or 'Fair Value Through Profit or Loss ("FVTPL") category is that the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank has performed the SPPI test and has determined the business models for its financial assets.

– ***Business model assessment***

There are three business models under IFRS 9 – 'Held to Collect ("HTC")', 'Held to Collect and Sell ("HTCS")' and 'Other ("Other BM")'.

1. Under the HTC model, cash flows result from collecting contractual payments. If an SPPI product is HTC, it is measured at amortised cost.
2. Under HTCS, cash flows result from contractual payments, as well as from selling the financial assets. If an SPPI product is HTCS, it is measured at fair value though other comprehensive income ("FVOCI").
3. Other BM are those that are neither HTC, nor HTCS. One example could be a model under which trading is the primary purpose with contractual payment collection not constituting an integral part of the model. If a product (SPPI or not) is held under Other BM, it is measured at fair value though profit or loss ("FVTPL"). The Bank has assessed the business model for its financial assets as follows;

Treasury

Treasury assets consist of cash or equivalents, Government Bonds, Investment securities such as Eurobonds, Bonds and Certificates.

Investment securities are accounted for depending on their classification as either Financial instruments measured at amortized cost or Financial instruments measured at FVOCI and in some cases as HTC.

The business model of the Bank under IFRS 9 is:
- "HTC" for HTM products. Such products shall be measured at amortised cost;
- "HTCS" for AFS products. Such products shall be measured at FVOCI; and
- "Other BM" for TRD products and shall be measured at FVTPL.

Retail

The Retail assets consist of various financing facilities to individuals (e.g. Mortgage loans, Consumer loans, Home improvement loans, Car loans, Credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.

The fair value of the Retail assets is not a critical aspect in the Bank's management of the portfolio.

The business model of the Banks under IFRS 9 is "HTC" and the Retail loans shall be measured at amortised cost.

Corporate

The Corporate assets consist of various financing facilities to corporates (e.g. Cash loans, Non-cash loans, Agro loans, Project & structured finance, Business credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.

The fair value of the Corporate assets is not a critical aspect in the Bank's management of the portfolio.

The business model of the Banks under IFRS 9 is "HTC" and the corporate loans shall be measured at amortised cost.

3. Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(iv)Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Bank's cash and cash equivalents, loans and most of other receivables fall into this category of financial instruments as well as government bonds and forfeiting instruments that were previously classified as held-to-maturity under IAS 39.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

The category also contains an equity investment. In the current financial year, the fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Bank determined that in the current period the Fair Value of these investments approximates to their carrying amount. Government bonds that are held for trading are classified as held-for-trading under IAS 39 fall into this category.

Financial assets at fair value through other comprehensive income (FVOCI)

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon de-recognition of the asset. The Bank's government bonds, treasury notes and treasury bills, corporate bonds, promissory notes, assets backed securities and equity portfolio that were previously classified as available for sale fall into this category.

(v) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(vi) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3. Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(vii) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

In many cases the transaction price equals the fair value (that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold). When determining whether fair value at initial recognition equals the transaction price, the Bank considers factors specific to the transaction and to the asset or liability.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(viii) Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss. Recognition of credit losses is no longer dependent on the Bank first identifying a credit loss event. Instead the Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

3. Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(ix) Classification and measurement of financial liabilities

The Bank's financial liabilities include Customer deposits, borrowings from banks and other financial institutions, subordinated debt and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Bank designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

(x) Derivative financial instruments and hedge accounting

The Bank applies the new hedge accounting requirements in IFRS 9 prospectively.

Derivative financial instruments are accounted for at fair value through profit and loss (FVTPL) except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

- There is an economic relationship between the hedged item and the hedging instrument
- The effect of credit risk does not dominate the value changes that result from that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item. If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss.

If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

(g) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(h) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

3. Significant accounting policies (continued)

(h) Derivatives held for risk management purposes (continued)

(i) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans at fair value through profit or loss as described in accounting policy 3(f), (iii).

(j) Property and equipment and intangibles

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

• Leased hold improvements	1 to 10 years
• Motor vehicles and machinery	5 years
• Office furniture	5 years
• Computers and electronic equipment	5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting dates.

(iv) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives, which at 31 December 2020 and 2019 is from 1 to 20 years.

Intangible assets consist of software licences.

3. Significant accounting policies (continued)

(j) Property and equipment and intangibles (continued)

(v) Leased property and equipment

For contracts in place, the Bank has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Bank has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

Initial direct costs

An entity may exclude initial direct costs from the measurement of the Right of Use asset at the date of initial application.

Based on IFRS 16, if a lessee elects to apply the standard with the modified retrospective application, the lessee shall choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

Option 1 – its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. The practical expedient to exclude initial direct costs from the measurement of the Right of Use asset at the date of initial application is applicable under Option 1 or;

Option 2 – an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease. Although it is not stated explicitly in the new standard, the practical expedient on initial direct costs is not relevant under Option 2. The Bank does not adjust the Right of Use asset for historical amounts e.g. initial direct costs.

The Bank has opted to apply the modified retrospective method under Option 2.

Low-value assets

Lessees can also make an election to apply a method similar to current operating lease accounting to leases for which the underlying asset is of low-value. IFRS 16 does not define the term low-value.

Banka Kombëtare Tregtare Kosovë Sh.a uses the EUR 5,000 as a threshold and simultaneously analyses the nature of the asset in order to assess whether a leased asset qualifies for the low-value asset exemption. The types of assets that qualify for the low-value asset exemption might change over time if, due to market developments, the price of a particular type of asset changes.

Incremental Borrowing Rate

The rate used for calculation of the RoU asset and the Lease liability has taken into consideration the term, FX denomination, risk associated with the bank, security, risk associated with the asset and economic environment.

The closest values matching this definition are Funds Transfer Pricing (FTP) rates. The term and FX denomination are taken into consideration when constructing the EUR yield curves. The Bank considered at the initial application date the rates published by 31 December 2018.

After consideration, the Bank determined that there are no differences in terms of security, due to the fact that the lessor effectively has security of owning the asset. Therefore, no adjustments were required. Since the starting point is in the same jurisdiction and in the same currency as leases, no adjustment is required for this segment as well. In addition, for assets such as office buildings and ATM space, considering that they are in a frequented area, are not highly illiquid or specialized assets, specific asset premium would be nil.

3. Significant accounting policies (continued)

(j) Property and equipment and intangibles (continued)

(v) Leased property and equipment (continued)

The incremental borrowing rate is determined as the base rate yield curve plus the credit spread.

a. Base rate yield curve

Input data in the model are money market rates (inter-bank rates in maturity bucket ON-1Y). These data are published on daily basis in "Reuters" (inter-bank trading platform). For higher maturities, the rate is calculated by extrapolating starting from the money market rates of December 2018.

The Bank uses the Cubic spline interpolation for EUR yield curve construction. Cubic spline interpolation is a special case of spline type interpolation that is used very often to avoid the problem of Runge's phenomenon. This method gives an interpolating polynomial that is smoother and has smaller error than some other interpolating polynomials such as Lagrange polynomial and Newton polynomial. Cubic smoothing splines fitted to univariate time series data can be used to obtain local linear forecasts. The approach is based on a stochastic state space model which allows the use of a likelihood approach for estimating the smoothing parameter, and which enables easy construction of prediction intervals. In essence the same mathematical mechanic is followed by the NSS (Nelson-Siegel-Svensson) model. Whereas an interpolation typically begins with specifying a functional form either to approximate discount function or forward rates, and then estimates the unknown parameters. The cubic spline approach, brings more flexibility on the shape of a yield curve and is thus good for financial practitioners who are looking for small pricing anomalies.

b. Credit spread

For the credit spread calculations, the Bank has approached the following logic:

1) Identify the international long-term Issuer Default Rating of the financial institution ("Bank"). International long-term IDR is given by the External Credit Rating Agency such as Moody's, Fitch or Standard & Poor. The Bank will use only the official, world-wide accepted, external credit rating agencies such as Fitch, Moody's and S&P because only these 3 agencies do the analyses world-wide, make and publish the studies on PDs, LGD's (where credit spread will be determined as PD*LGD) etc. on the global level. These three agencies are also the only ones allowed to be used for the purpose of relying on the expert-data parameters for e.g. in EU (as per CRD/CRR regulation etc.).
2) If the financial institution (Bank) does not have such a rating and it is part of a Bank, the lower rating of the country ceiling for the country where Bank is located and the external agency's international long-term Issuer Default Rating of the ultimate parent is used. The underlying reason for this approach is that when a bank is part of a Bank, support is more likely.
3) If neither of these steps results in a rating, country ceiling for the country in which Bank is located is identified and at least one notch is subtracted. The country ceiling is the best rating that an entity based in that country can receive, so this is used as a benchmark as we tend to work with the biggest and most robust institutions. Additionally, the downward risk adjustment is made for the sake of prudence.

   The state of Kosova does not have a credit rating.

The credit rating of BKT Kosova (B-) is determined by starting from the credit rating of BKT Albania (B), as the parent company, deducted by one notch for the sake of prudence.

In this manner, is determined the credit rating of the Bank at B-. That particular rating of the Bank is assigned proper probability of default rate (PD rate), which is externally calculated – expert data given by the external credit rating agency. However, PD is just a probability. In order to approximate full credit risk, LGD is needed. By multiplying the PD rate and LGD rate, credit loss rate is obtained and this is the approximation of credit risk. It is recommended to use Basel LGD value as fixed at 45% at all times.

3. Significant accounting policies (continued)

(j) Property and equipment and intangibles (continued)

(v) Leased property and equipment (continued)

BKT Kosova	B-

At initial application date, the credit spread of the Bank is 4.08%. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.82%.

The Bank has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

For leases previously classified as operating leases under IAS 17, a lessee recognizes a lease liability measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2020.

3. Significant accounting policies (continued)

(k) Assets acquired through legal process (repossessed collateral)

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. The Bank applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

Collaterals repossessed by the Bank represent the repossessed collaterals of some unrecoverable loans, the ownership of which was taken by the Bank. The Bank has established an Asset Sale Committee, responsible for the disposal of these assets. These assets are accounted for as foreclosed assets. The fair value of these assets at the reporting date is determined with reference to the current market prices. Write off for repossessed collateral is booked for all the repossessed assets more than 10 years from the end of actual reporting period.

(l) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Deposits and borrowings

Deposits and borrowings are part of the Bank's sources of funding. When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements. Deposits and borrowings are initially measured at fair value net of directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies (continued)

(n) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for. A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(o) Employee benefits

(i) **Defined contribution plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. The Bank makes compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Kosova under a defined contribution pension plan.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.1 New Standards adopted as at 1 January 2020

The Bank has adopted the new accounting pronouncements which have become effective this year, and are as follows:

Standards and amendments that are effective for the first time in 2020 (for an entity with a 31 December 2020 year-end) and could be applicable to the Bank are:

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Amendments to Refences to the Conceptual Framework (Various Standards)
- COVID-19 Rent Related Concessions (Amendments to IFRS 16)

These amendments do not have a significant impact on these Financial Statements and therefore the disclosures have not been made.

3. Significant accounting policies (continued)

3.2 Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group

Standards and amendments that are not yet effective and have not been adopted early by the Bank include:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- References to the Conceptual Framework
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

These amendments are not expected to have a significant impact on the financial statements in the period of initial application and therefore the disclosures have not been made.

4. Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 5).

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test (note 3, (f), (iii)). The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

ECL Determination

Significant increase of credit risk: As explained in note 3 (f) (viii) and 5 (b) (ii), ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank considers qualitative and quantitative reasonable and supportable forward-looking information. Refer to note 3 (f) (viii) and 5 (b) (ii), for more details.

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3 (f) (viii) and 5 (b) (ii), for details of the characteristics considered in this judgement. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used: The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3 (f) (viii) and 5 (b) (ii), for more details on ECL and note 3 (f) (vii) for more details on fair value measurement.

4. Use of estimates and judgements (continued)

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3 (f) (vii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgments made in applying the Bank's accounting policies include:

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed under note 3 (f) (vii).

The Bank measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

4. Use of estimates and judgements (continued)

Fair values

The table below sets out the carrying amounts and fair values of the financial assets and liabilities by the level in the fair value hierarchy into which the fair value measurement is categorised:

31-Dec-20			Fair Value			
	Note	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	7	30,402,526	-	-	30,402,526	30,402,526
Investment securities	8	129,489,705	101,259,272	-	28,230,433	129,489,705
Due from BKT Albania	25	38,658	-	-	38,658	38,658
Loans and advances to banks and other syndication loans	9	32,008,794	-	-	32,008,794	32,008,794
Loans to customers	9	351,964,719	-	-	351,964,719	351,964,719
Total financial assets		**543,904,402**	**101,259,272**	**0**	**442,645,130**	**543,904,402**
Customer deposits	13	539,308,400	-	-	539,308,400	539,308,400
Due to banks	14	13,829,728	-	-	13,829,728	13,829,728
Liabilities based on Repo Transactions	14	22,066,897	-	-	22,066,897	22,066,897
Borrowings	16	18,247,148	-	-	18,247,148	18,247,148
Total financial liabilities		**593,452,173**	**0**	**0**	**593,452,173**	**593,452,173**

31-Dec-19			Fair Value			
	Note	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	7	37,244,984	-	-	37,244,984	37,244,984
Investment securities	8	113,609,245	105,911,833	-	7,697,412	113,609,245
Due from BKT Albania	25	25,139	-	-	25,139	25,139
Provisions	9	-	-	-	-	-
Loans to customers	9	305,985,957	-	-	305,985,957	305,985,957
Total financial assets		**456,865,325**	**105,911,833**	**0**	**350,953,492**	**456,865,325**
Customer deposits	13	449,152,204	-	-	449,152,204	449,152,204
Due to banks	14	5,435,478	-	-	5,435,478	5,435,478
Liabilities based on Repo Transactions	14	-	-	-	-	-
Borrowings	16	22,283,169	-	-	22,283,169	22,283,169
Total financial liabilities		**476,870,851**	**0**	**0**	**476,870,851**	**476,870,851**

4. Use of estimates and judgements (continued)

Going Concern

During the beginning of 2020, the pandemic of COVID-19 was spread globally. In response to the situation, in March 2020 the Government of Kosova took drastic measures by suspending all activities that were not vital. Furthermore, facing the consequences of the COVID-19 Pandemic, which go far beyond the crucial element of public health, both the Government of Kosova and Central Bank of Kosova implemented immediate measures in order to mitigate the social and economic impact of the outbreak.
The government on 27 March 2020 approved the emergency fiscal package in amount Eur 170.6Mil Euro, the package includes:

- Euro 41mio for payment of salaries for private sector with the monthly amount Eur 170 for 2 months
- Euro 20mio for companies public & private that offers municipalities services that are affected by the restriction of movement
- Euro 15mio for micro and small companies affected directly by the covid-19 (through KCGF)
- Euro 5mio for subvention for Agro sector (and Euro 5Mil additional to budget)
- Euro 10mio for supporting companies which are exportin
- Other amount is distributed for measures for fighting COVID-19 and families in need (for 98.100 citizens)
- Extension of deadlines for implementation of the unfinished Grants project for farmers
- Securing the feed corridor for livestock and poultry from Bulgaria and northern Macedonia.
- Subvention of the rent's payments for businesses up to 50%

Furthermore, Government of Kosova announced the second phase of Economic recover package in amount of EUR 1.2billion, including:

- Government Approval of Project Law for Economic Recovery – COVID 19,
- Withdrawal 10 % of savings funds from the pension trust
- Increasing coverage of new loans through the Kosovo Credit Guaranty Fond-KCGF,
- Reprogramming of existing bank loans where the government receives the reprogramming fee,
- Facilitate the tax burden on businesses to improve their short-term liquidity,
- Payment subsidy for existing employers as well as new employers for specific sectors affected by pandemics,
- Doubling the budget for agriculture and increasing subsidies,
- Development of local agricultural markets and their digitalization as well as support for the sale of fresh agricultural products,
- Subsidizing interest rates on agricultural loans,
- Support for the extension of the Greek period for the purchase of apartments and houses based on income criteria as well as the return of a part of the saved funds to the contributors from pension trust,

Central Bank of Kosova has announced that customers that will face liquidity problems can request a postponement of the settlement of their liabilities toward the Banks until 30.10.2020.

The Bank considers the liquidity risk in the recovery plans, in the internal capital adequacy assessment process, setting well-defined limits on its appetite for risk. The Group determines that its capital resources are available.

In terms of liquidity scenarios, the Bank conducts periodically stress tests exercises to assess its liquidity position. In these exercises the Bank conduct 3 liquidity crisis scenario which are: business as usual scenario, idiosyncratic scenario and systemic scenario. In this regard, throughout 2020, the exercises have confirmed that even if the liquidity stress situation would continue for a period of 3 months, the Bank would meet the demand for funds for its main currencies.

4. Use of estimates and judgements (continued)

Going Concern (continued)

Moreover, in the frame of managing and monitoring the liquidity risk, it has been performed the projection of liquidity in terms of not cash flow based on the trend performance during the period of pandemic situation. It is worth emphasizing that in the above liquidity cash flow analysis, we have taken into consideration how long the cash available, including the cash inflows, would be sufficient to cover the cash outflows. From the results, the Bank would be able to cover its cash outflow, with current cash available and potential cash inflow up to 7 months in loan repayment, security portfolio and deposit withdrawal. In this regard, throughout 2020, the exercises have confirmed that even if the liquidity stress situation would continue for a period of 3 months, the Bank would meet the demand for funds for its main currencies.

In the scenarios considering the pandemic extent, the CAR in both, baseline and adverse scenarios, have resulted above the minimum requirement threshold set by Central Bank of Kosova. Hoverer, the Bank has taken necessary protective action by increasing the capital during 2020.

For the year ending 2021, the Bank would expect an increase on the nonperforming loans portfolio due to the economic downturn. Following the emergence of COVID - 19 pandemics, the Bank has analysed and considered the macroeconomic changes to reflect the impact of COVID - 19 in the calculation of the Expected Credit Loss.

During 2020, the Bank has managed to achieve the budgeted results, exceeding them in terms of balance sheet size, while in terms of profitability the Bank achieved 97% of targets. For the year ending 2021, the Bank expects the budgeted figures to be standing at positive results, although not possible to be reliably measured at the moment.

During 2020, the decline in share prices on global listed stock exchanges occurred in the beginning of 2020 reversed gradually in the upcoming month resulting to a higher fair value of the Bank listed investments. In 2021 the Management expect a stable performance of the fair value reserve.

The Banks management evaluates the Banks ability to continue as a going concern considering all the factors stated above and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Banks ability to continue as a going concern. Therefore, the Consolidated Financial Statements continue to be prepared on the going concern basis.

The below table shows the detailed postponed amount and number of customers, divided in corporate and retail:

	Phase 1		**Phase 2**	
	Postponed Debt	**Number of Customers**	**Postponed Debt**	**Number of Customers**
Corporate	25,819,074	247	70,591,066	172
Retail	36,830,892	3,243	4,913,030	219
Total	**62,649,966**	**3,490**	**75,504,096**	**391**

5. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO), Risk Management Group and Credit Committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All these bodies report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's Loans to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). BKT Kosova has formed a Credit Committee to oversee the approval of requests for credits up to the limit of 500,000 EUR. Credit requests with amounts over EUR 500,000 are approved only upon decision of the Board of Directors. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

Each business unit is required to comply with Bank credit policies and procedures. Regular audits of business units and Credit Risk Management processes are undertaken by Internal Audit.

5. Financial risk management (continued)

(b) Credit Risk (continued)

i. Maximum credit exposure

The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets. Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2020 and 31 December 2019 are as follows:

Financial Instruments Credit Risk	Note	31-Dec-20			31-Dec-19		
		Exposure before impairment	Impairment	Net exposure for credit risk	Exposure before impairment	Impairment	Net exposure for credit risk
A. Credit risk exposure relating to balance sheet items							
Cash and Cash Balances with Central Banks		102,398,903	-	102,398,903	68,789,883	-	68,789,883
Placements and Balances with the Banks		30,408,198	-5,672	30,402,526	37,277,297	-7,174	37,270,123
Investment securities - measured at FVOCI		101,467,602	-208,330	101,259,272	106,146,687	-234,855	105,911,832
Investment securities - measured at amortised cost		28,317,762	-87,329	28,230,433	7,722,140	-24,727	7,697,413
Loans to customers		364,368,180	-12,403,461	351,964,719	315,593,114	-9,607,157	305,985,957
Loans and advances to banks		32,108,988	-100,194	32,008,794	0	0	0
Other Assets		6,981,921		6,981,921	5,872,782	-225,002	5,647,780
Total Assets		**666,051,554**	**-12,804,986**	**653,246,568**	**541,401,903**	**-10,098,915**	**531,302,988**
Off balance sheet items							
Undrawn credit commitments		40,578,963	-	40,578,963	37,231,125	-	37,231,125
Swap foreign currency contract	29	39,308,879	-	39,308,879	18,575,154	-	18,575,154
Collaterals for loan portfolio		802,594,080	-	802,594,080	699,438,780	-	699,438,780
Securities pledged as collateral		-	-	-	-	-	-
Total off-balance sheet		**882,481,922**	**-**	**882,481,922**	**755,245,059**	**-**	**755,245,059**
Total credit risk exposure		**1,548,533,476**	**-12,804,986**	**1,535,728,490**	**1,296,646,962**	**-10,098,915**	**1,286,548,047**

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii. Expected credit loss measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The guiding principle of the expected credit loss model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. This credit quality depends on the extent of credit deterioration since initial recognition and will spread over three stages:

"Stage 1" comprises of assets that have not suffered any significant deterioration of credit quality since initial recognition;

"Stage 2" comprises of assets that have suffered significant deterioration since initial recognition;

"Stage 3" concerns all assets where a default has occurred.

Under this general approach, the ECL for an asset is calculated over different time horizons according to the stage it was assigned to:

ECL over one year for assets in stage 1;

ECL over remaining lifetime for assets in stage 2 and stage 3.

The stage assignment is done according to the following rules:

Impairment: if the counterparty for the considered asset has defaulted, the asset is assigned to "Stage 3". An asset is considered as having defaulted if any repayment (principal or interest) is overdue for more than 90 days or if the counterparty is in a proven situation of default (bankruptcy).

Rating D (lower than C): Assets with this rating are currently considered to be in stage 3.

Qualitative factors: IFRS 9 has advised to consider qualitative factors such as watch lists or financial analysis by experts. Similarly, to the previous case, there is also a second time threshold. In case the repayment of an asset is overdue for more than 30 days and less than 90 days, it is assigned to "Stage 2".

Relative Threshold: if the counterparty has suffered significant deterioration in credit risk, that is if its credit quality since initial recognition has dropped more than a specific pre-defined relative threshold, then it is assigned to "Stage 2".

All assets that are not in the previous cases are assigned to "Stage 1".

Grouping of instruments for losses measured on a collective basis
For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible.

Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes.

The Bank has three main portfolios, which are:

- Loan portfolio
  This category includes wholesale and individual/retail accounts loans.
- Treasury portfolio
  This category includes bonds, treasury bills and equity accounts.
- Project and Structured Finance
  This category includes letters of credit and bank guarantees.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

Significant Deterioration through relative threshold
The bank computes a relative threshold matrix that gives for each rating a prediction of what the expected rating for each time horizon should be.

Through-the-cycle (TTC) transition matrices give the percentage of counterparties which moved from one rating to another over a specific time interval. TTC matrices over a 10-year horizon are taken since this gives a comfortable horizon for a relative threshold.

Credit risk grading
The bank relied on proxies provided by external credit rating agencies. External TTC transition matrices for all European entities provided by international credit rating agencies are used. The following steps are then carried out:

First the mapping between the internal and external rating systems is performed;

From there, a TTC transition matrix with the number of observations (number of entities that changed from one specific rating to another) is used and a weighted average per mapped rating is computed in order to compute the internal ratings TTC matrix.

Forward-looking information incorporated in the ECL models
The TTC PDs are transformed into PIT PDs by taking into account the macroeconomic environment through a set of macroeconomic variables: real GDP growth rate, inflation rate and unemployment rate. These variables were sourced from the IMF2, including historical data spanning 1990 – 2017 and baseline projections for 2018 – 2021. The first PD model includes a simplified form of the Merton model. In this framework, a systemic variable Xtwhich represents the macroeconomic environment is introduced. The sensitivity of each rating's PD to this variable is obtained via the calibration of the ρparameter. The model takes into account the global default rate of each year and calculates $Xt$for each year, which is then regressed over with the different combinations of macro-economic variables. Using projections of the macroeconomic variables, the regression formula is used to deduce projections of Xt, and based on the one factor Merton model the PIT PDs are obtained. The second PD model considers the default rate per rating in each year, which enables the calibration of the sensitivity ρi for all ratings.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques
The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

1. Probability of default (PD);
2. Loss given default (LGD); and
3. Exposure at default (EAD).

ECL is estimated under Baseline (typical), Best (favourable) and Adverse (unfavourable) conditions.
The only Point-in-Time estimates are for Probability of Default. LGD assumes Basel estimates and EAD uses amortisation type payment schedules. Once all components (PD, EAD, LGD) have been computed, the ECL is estimated under three different scenarios: Baseline (typical), Best (favourable) and Adverse (unfavourable) condition, with weights 52%, 18% and 30% respectively. The final ECL is the probability-weighted ECL under those three scenarios.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

1. Probability of Default

The probability of default has been modelled on the basis of the one factor Merton model. The approach to model the point-in-time forward looking and macroeconomic PD is divided into three different steps: - The first step is to calibrate the cumulated TTC PDs; - The second step is to include the forward-looking information and transform the cumulated TTC PDs to PIT PDs; - The final step is to describe the conversion of PIT PDs to TTC PDs after a certain horizon. Default rates are essential for the calculation of Point-in-Time Probability of Default (PD) and for the estimation of ECL. The Bank used external default rate data for each relevant sector and region. A number of macro-economic variables sourced from the IMF2, including historical data spanning 1990 – 2017 and baseline projections for 2018 – 2021, were considered in modelling of PIT PD. For non-rated accounts, PD are estimated using the nominal weighted average PD of all rated accounts within the same rating system. However, this does not guarantee that the PD for non-rated accounts in stage 2 (NRB2) is higher than for stage 1 (NRB1). To account for the higher risk of NRB2 exposures, the Bank mapped NRB2 to an equivalent risk grade with similar PIT PD as the PD for NRB1 exposure for a time horizon equal to the average residual lifetime of all unexpired accounts within the same sector.

2. Loss Given Default (LGD)

Loss Given Default is defined as the percentage of the Exposure at Default (EAD) that is ultimately lost in case of default of a counterparty, after all possible recoveries through selling of collateral or collection procedures. As regards to the loan to customers' portfolio, LGD is modelled using historical recovery rates or using the collateral value of the asset. The bank has considered information about past collateral value, time in default, time to sale, sale costs, in calculating the LGD. A defaulted collateralised asset can move through different stages post default. The bank can seize the collateral ("Possession") in order to sell it ("Sale") and make up for the potential loss due to the default of the counterparty. Possession of collateral can occur voluntarily ("handing over the keys") or via litigation (court proceedings). And sales may be carried out by the institution (after obtaining possession) or by means of a customer self-sale. On the date of collateral sale, any shortfall is recognised in the P&L (write-off expense) and subsequent recoveries (debt collection either internal or external) may occur. Write-off occurs when there is a shortfall on collateral sale. Closed and cures occur when the full outstanding is recovered with the former resulting in the account closing (i.e. no lending). Cure refers to both closed and curing accounts. For the unsecured/uncollateralised types of assets the value of the collateral is supposed to be 0 and the actual model is still applied taking into account pure debt collection. In the light of this recovery process, the Bank defines LGD as the expected severity (loss) given a default. The Banks mapped each collateral type in BKT portfolios to the Basel LGD segments1, each with their own LGD parameters for Corporate and Retail Portfolio based on historical data. For Sovereigns and Banks Segment, LGD value is fixed 25% as per Basel requirements.

3. Exposure at Default (EAD)

An asset can have a customised, linear or bullet amortisation type. For assets with a customised amortisation type, repayment schedules are used to estimate EAD. For assets without any amortisation type, a linear repayment plan is assumed. For off balance sheet exposures, it is required that provisions are held against undrawn commitments. BKT's calculation of the credit conversion factor (CCF) values is in line with Basel II requirements under the standardised approach: "Commitments with an original maturity up to one year and commitments with an original maturity over one year will receive a CCF of 20% and 50%, respectively." Early repayment/refinance assumptions are also incorporated into the calculation. However, the early repayments are considered to be 0 for all assets as the Bank's historical data suggests insignificant material impact.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in gross carrying amount of loans to customers at amortised cost.

CHANGES IN GROSS CARRYING AMOUNT OF LOANS TO CUSTOMERS AT AMORTISED COST

31 December 2020	Loans and advances to customers			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2020	**298,290,214**	**11,165,637**	**6,554,854**	**316,017,078**
Transfer to Stage 1 (from 2 or 3)	3,326,933	(3,117,191)	(209,742)	-
Transfer to Stage 2 (from 1 or 3)	(14,588,409)	14,677,740	(89,331)	-
Transfer to Stage 3 (from 1 or 2)	(1,209,389)	(845,775)	2,055,164	-
New financial assets originated or purchased	121,541,929	79,692,328	215,018	201,449,275
De-recognition of financial assets	(118,827,177)	(6,198,411)	(794,093)	(125,819,681)
Changes due to change in credit risk that did not result in de-recognition	(22,104,400)	(3,219,966)	(1,029,793)	(26,354,159)
Write-offs	-	-	(622,978)	(622,978)
Gross Balance at 31 December 2020	**266,429,701**	**92,154,362**	**6,079,099**	**364,663,162**

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included. As of 31-December-2020 unamortized deferred fee amounts 294,982 Eur.p

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

CHANGES IN GROSS CARRYING AMOUNT OF LOANS TO CUSTOMERS AT AMORTISED COST

31 December 2019	Loans and advances to customers			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2019	**230,324,795**	**15,845,183**	**9,971,018**	**256,140,996**
Transfer to Stage 1 (from 2 or 3)	11,344,088	(11,103,743)	(240,345)	-
Transfer to Stage 2 (from 1 or 3)	(9,951,783)	10,083,941	(132,158)	-
Transfer to Stage 3 (from 1 or 2)	(1,731,136)	(1,088,562)	2,819,698	-
New financial assets originated or purchased	150,004,032	1,177,383	48,022	151,229,437
De-recognition of financial assets	(44,456,635)	(1,468,051)	(588,299)	(46,512,985)
Changes due to modifications that did not result in de-recognition	(37,243,147)	(2,280,514)	(2,089,426)	(41,613,087)
Write-offs	-	-	(3,233,656)	(3,233,656)
Gross Balance at 31 December 2019	**298,290,214**	**11,165,637**	**6,554,854**	**316,010,705**

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included. As of 31 December 2019, Unamortized deferred fee amounts 417,591 Eur.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in allowance of loans to customers at amortised cost

ALLOWANCE OF LOANS TO CUSTOMERS AT AMORTISED COST

31 December 2020	Loans to customers allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 20120	**7,070,848**	**436,735**	**2,099,573**	**9,607,157**
Transfer to Stage 1 (from 2 or 3)	377,980	(162,271)	(215,709)	0
Transfer to Stage 2 (from 1 or 3)	(228,327)	263,529	(35,202)	0
Transfer to Stage 3 (from 1 or 2)	(16,580)	(7,726)	24,306	0
New financial assets originated or purchased	1,435,297	6,003,691	122,939	7,561,927
De-recognition of financial assets	(3,468,160)	(252,557)	(246,365)	(3,967,082)
Write-offs	-	-	(445,178)	(445,178)
Changes in models/risk parameters	(819,564)	(25,866)	492,068	(353,362)
Foreign exchange and other changes	-	-	-	0
Allowance at 31 December 2020	**4,351,494**	**6,255,535**	**1,796,432**	**12,403,461**

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in allowance of loans to customers at amortised cost

ALLOWANCE OF LOANS TO CUSTOMERS AT AMORTISED COST

31 December 2019	Loans to customers allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2019	**4,634,966**	**676,426**	**3,097,378**	**8,408,770**
Transfer to Stage 1 (from 2 or 3)	735,983	(578,735)	(157,248)	-
Transfer to Stage 2 (from 1 or 3)	(130,790)	180,713	(49,923)	-
Transfer to Stage 3 (from 1 or 2)	(62,253)	(26,803)	89,056	-
New financial assets originated or purchased	4,415,046	89,861	75,752	4,580,659
De-recognition of financial assets	(630,084)	(34,860)	(189,122)	(854,066)
Write-offs	-	-	(1,332,990)	(1,332,990)
Changes in models/risk parameters	(1,892,020)	130,133	566,671	(1,195,216)
Foreign exchange and other changes	-	-	-	-
Gross Balance at 31 December 2019	**7,070,848**	**436,735**	**2,099,574**	**9,607,157**

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers). Fair values and discount / premiums are excluded.

CHANGES IN GROSS CARRYING AMOUNT OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)

31 December 2020	Due from Banks				Investment Securities at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**12,209,523**	**-**	**-**	**12,209,523**	**101,457,813**	**-**	**-**	**101,457,813**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-	-	-	-	-
New financial assets originated or purchased	7,206,181	-	-	7,206,181	43,429,220	-	-	43,429,220
De-recognition of financial assets	(12,209,523)	-	-	(12,209,523)	(45,689,756)	-	-	(45,689,756)
Changes due to modifications that did not result in de-recognition	-	-	-	-	(1,008,550)	-	-	(1,008,550)
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange and other changes	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2020	**7,206,181**	**-**	**-**	**7,206,181**	**98,188,727**	**-**	**-**	**98,188,727**

31 December 2020	Investment Securities at amortised cost				Loan Commitments and financial guarantee			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
Balance at 1 January 2020	**8,132,409**	**-**	**-**	**8,132,409**	**12,284,809**	**-**	**5,000**	**12,289,809**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	(5,000)	5,000	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-	-	-	-	-
New financial assets originated or purchased	20,894,968	-	-	20,894,968	12,401,889	1,808,395	-	14,210,285
De-recognition of financial assets	-	-	-	-	(6,263,720)	-	(5,000)	(6,268,720)
Changes due to modifications that did not result in de-recognition	(687,255)	-	-	(687,255)	700	-	-	700
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange and other changes	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2020	**28,340,121**	**-**	**-**	**28,340,122**	**18,418,679**	**1,813,395**	**-**	**20,232,074**

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers).

CHANGES IN GROSS CARRYING AMOUNT OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)

31 December 2019	Due from Banks				Investment Securities at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**6,017,047**	**-**	**-**	**6,017,047**	**69,702,837**	**-**	**-**	**69,702,837**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-	-	-	-	-
New financial assets originated or purchased	11,164,482	-	-	11,164,482	78,474,987	-	-	78,474,987
De-recognition of financial assets	(4,965,066)	-	-	(4,965,066)	(44,633,406)	-	-	(44,633,406)
Changes due to modifications that did not result in de-recognition	(6,941)	-		(6,941)	(2,086,605)	-	-	(2,086,605)
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange and other changes	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2019	**12,209,522**	**-**	**-**	**12,209,522**	**101,457,813**	**-**	**-**	**101,457,813**

31 December 2019	Investment Securities at amortised cost				Loan Commitments and financial guarantee contracts			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
Balance at 1 January 2019	**5,303,912**	**3,566,452**	**-**	**8,870,364**	**15,464,224**	**-**	**-**	**15,464,224**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	(5,000)	-	5,000	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 3 (from 1 or 2)		-	-	-	-	-	-	-
New financial assets originated or purchased	2,726,517	-	-	2,726,517	5,787,659	-	-	5,787,659
De-recognition of financial assets	-	(3,566,452)	-	(3,566,452)	(9,012,074)	-	-	(9,012,074)
Changes due to modifications that did not result in de-recognition	101,980	-	-	101,980	50,000	-	-	50,000
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange and other changes	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2019	**8,132,409**	**-**	**-**	**8,132,409**	**12,284,809**	**-**	**5,000**	**12,289,809**

The gross carrying amounts include only Nominal amounts. Unamortized discount; Accrued interest and Marked to market gain/ (loss) are not included.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers).

RECONCILATION OF THE ACCUMULATED IMPAIRMENT ALLOWANCE OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)

31 December 2020	Due from Banks				Investment Securities at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**7,174**	**-**	**-**	**7,174**	**234,855**	**-**	**-**	**234,855**
								-
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-	-	-	-	-
New financial assets originated or purchased	5,672	-	-	5,672	88,077	-	-	88,077
Derecognition of financial assets	-7,174	-	-	-7,174	-108,702	-	-	-108,702
Write-offs	-	-	-	-	-5,900	-	-	-5,900
Changes in models/risk parameters	-	-	-	-	-	-	-	-
Foreign exchange and other movements								
Gross Balance at 31 December 2020	5,672	0	0	5,672	208,330	0	0	208,330

31 December 2020	Debt Investment Securities at amortised cost				Loan Commitments and financial guarantee contracts			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**24,727**	**-**	**-**	**24,727**	**536,621**	**-**	**-**	**536,621**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	64,692	-	-	64,692	395,789	3,246	-	399,035
New financial assets originated or purchased	-	-	-	-	(112,096)	-	-	(112,096)
Derecognition of financial assets	-	-	-	-	-	-	-	-
Write-offs	(2,090)	-	-	(2,090)	(168,591)	-	-	(168,591)
Changes in models/risk parameters	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2020	87,329	-	-	87,329	651,722	3,246	-	654,968

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers).

RECONCILATION OF THE ACCUMULATED IMPAIRMENT ALLOWANCE OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)

31 December 2019	Due from Banks				Investment Securities at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**6,473**	**-**	**-**	**6,473**	**138,992**	**-**	**-**	**138,992**
Transfer to Stage 1 (from 2 or 3)	-	-	-	**-**	-	-	-	**-**
Transfer to Stage 2 (from 1 or 3)	-	-	-	**-**	-	-	-	**-**
Transfer to Stage 3 (from 1 or 2)	-	-	-	**-**	-	-	-	**-**
New financial assets originated or purchased	3,309	-	-	**3,309**	175,048	-	-	**175,048**
Derecognition of financial assets	(2,775)	-	-	**(2,775)**	(73,380)	-	-	**(73,380)**
Write-offs	-	-	-	**-**	-	-	-	**-**
Changes in models/risk parameters	167	-	-	**167**	(5,805)	-	-	**(5,805)**
Foreign exchange and other movements	-	-	-	**-**	-	-	-	**-**
Gross Balance at 31 December 2019	**7,174**	**-**	**-**	**7,174**	**234,855**	**-**	**-**	**234,855**

31 December 2019	Debt Investment Securities at amortised cost				Loan Commitments and financial guarantee contracts			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**15,933**	**4,895**	**-**	**20,828**	**633,070**	**-**	**-**	**633,070**
Transfer to Stage 1 (from 2 or 3)	-	-	-	**-**	(320)	-	320	**-**
Transfer to Stage 2 (from 1 or 3)	-	-	-	**-**	-	-	-	**-**
Transfer to Stage 3 (from 1 or 2)	-	-	-	**-**	-	-	-	**-**
New financial assets originated or purchased	8,290	-	-	**8,290**	114,572	-	-	**114,572**
Derecognition of financial assets	-	(4,895)	-	**(4,895)**	(381,993)	-	-	**(381,993)**
Write-offs	-	-	-	**-**	-	-	-	**-**
Changes in models/risk parameters	504	-	-	**504**	171,292	-	(320)	**170,971**
Foreign exchange and other movements	-	-	-	**-**	-	-	-	**-**
Gross Balance at 31 December 2019	**24,727**	**-**	**-**	**24,727**	**536,621**	**-**	**-**	**536,621**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis

The following table sets out information about the credit quality of loan to customers in 2020 and 2019 by asset quality at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

		31-Dec-20	31-Dec-19
Stage 1	Non-Past Due	258,653,456	279,970,189
	Past due	7,781,577	18,320,025
	Total	**266,435,033**	**298,290,214**
	Allowance	4,345,954	7,070,849
	Total Carrying Amount	**262,089,079**	**291,219,365**
Stage 2	Non-Past Due	2,245,311	4,720,748
	Past due	89,902,678	6,444,889
	Total	**92,147,989**	**11,165,637**
	Allowance	6,276,187	436,735
	Total Carrying Amount	**85,871,802**	**10,728,902**
Stage 3	Non-Past Due	27,882	99,810
	Past due	6,052,258	6,455,044
	Total	**6,080,140**	**6,554,854**
	Allowance	1,781,320	2,099,573
	Total Carrying Amount	**4,298,820**	**4,455,281**
Total net amount at amortised cost		**352,259,701**	**306,403,548**
Value of collateral		**802,594,080**	**699,438,780**

Past due related to each stage is referred as follows: Stage 1: Past due 1-30 days past due, otherwise Non-Past Due, Stage 2: Past due 31-90 days past due, otherwise Non Past Due, Stage 3: Past due over 90 days past due, otherwise Non Past Due.

5. Financial risk management (continued)
(b) Credit Risk (continued)
iii. Credit quality analysis (continued)

The following table sets out information about the aging analyses of loans to customers in 2020 and 2019:

31 December 2020	Loans to customers 2020				Loans to customers 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Current	254,434,060	2,145,148	14,708	256,593,916	273,856,236	3,461,464	68,380	277,386,080
1 - 30 days	7,655,019	365,944	10,196	8,031,159	17,363,129	885,357	7,780	18,256,266
31 - 90 days	0	83,175,692	94	83,175,786	-	6,382,081	7,081	6,389,162
91 - 180 days	0	185,019	248,774	433,793	-	-	700,921	700,921
181 - 360 days	0	0	670,920	670,920	-	-	650,707	650,707
> 361 days	0	0	3,354,128	3,354,128	-	-	3,020,412	3,020,412
Total	**262,089,079**	**85,871,803**	**4,298,820**	**352,259,702**	**291,219,365**	**10,728,902**	**4,455,281**	**306,403,548**
Value of collateral	**542,469,835**	**237,629,503**	**22,494,742**	**802,594,080**	**640,204,424**	**37,490,440**	**21,743,916**	**699,438,780**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the credit quality of financial assets, other than loans to customers, measured at amortised cost, FVOCI debt investments (2019). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

FINANCIAL INSTRUMENTS CREDIT RISK - OTHER THAN LOANS TO CUSTOMERS

	2020					2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Total
Placements and Balances with banks at amortised cost						
Aa1 to Aa3						**-**
A1 to A3		-	-	-	**-**	**-**
Baa1 to Baa3	3,003,000	-	-	-	**3,003,000**	**2,004,884**
Ba1 to Ba3	-	-	-	-	**-**	**-**
B1 to B3		-	-	-	**-**	**-**
Unrated	4,203,181	-	-	-	**4,203,181.11**	**10,204,639**
Exposure before impairment	**7,206,181**	**-**	**-**	**-**	**7,206,181**	**12,209,523**
Loss allowance	5,672	-	-	-	**5,672**	**7,174**
Carrying amount	**7,200,509**	**-**	**-**	**-**	**7,200,509**	**12,202,349**
Investment Securities at FVOCI						
Aa1 to Aa3	-	-	-	-	-	**-**
A1 to A3	1,144,323	-	-	-	1,144,323	**1,111,422**
Baa1 to Baa3	2,574,386	-	-	-	2,574,386	**4,332,390**
Ba1 to Ba3	17,381,724	-	-	-	17,381,724	**6,085,598**
B1 to B3	38,960,808	-	-	-	38,960,808	**26,692,964**
Unrated	38,127,488	-	-	-	38,127,488	**63,235,439**
Exposure before impairment	**98,188,729**	**-**	**-**	**-**	**98,188,729**	**101,457,813**
Loss allowance	208,330	-	-	-	208,330	**234,855**
Carrying amount	**97,980,399**	**-**	**-**	**-**	**97,980,399**	**101,222,959**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

Investment Securities at Amortised Cost						
Aa1 to Aa3	-	-	-	-	**-**	**-**
A1 to A3	-	-	-	-	**-**	**-**
Baa1 to Baa3	-	-	-	-	**-**	**-**
Ba1 to Ba3	1,503,347	**-**	-	-	**1,503,347**	**-**
B1 to B3	26,836,775	**-**	-	-	**26,836,775**	**8,132,409**
Unrated	-	**-**	-	-	**-**	**-**
Exposure before impairment	**28,340,122**	**-**	**-**	**-**	**28,340,122**	**8,132,409**
Loss allowance	87,329	-	-	-	**87,329**	**24,727**
Carrying amount	**28,252,793**	**-**	**-**	**-**	**28,252,793**	**8,107,682**

Credit quality of financial assets other than loan and advances to customers, based on the internal rating system of the Bank is categorised as follows:

31-Dec-20	**Cash and balances with Central Bank**	**Due from other banks**	**Investment securities**	**Loans to banks and syndicated loans**	**Other Assets**	**Total**
Good	102,398,903	30,402,526	129,489,705	32,008,794	6,981,921	301,281,849
Acceptable	-	-	-	-	-	-
Close monitoring	-	-	-	-	-	-
Total	**102,398,903**	**30,402,526**	**129,489,705**	**32,008,794**	**6,981,921**	**301,281,849**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the credit quality loans to customers for the corporate portfolio in 2020. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST - CORPORATE PORTFOLIO

31 December 2020	**12-month ECL**	**Lifetime ECL not credit-**	**Lifetime ECL credit-impaired**	**Total**
Large Corporate				
Strong (rating A)	4,270,387	2,331	-	**4,272,718**
Satisfactory (rating B&C)	110,248,392	61,584,283	11,849	171,844,524
Watch list (higher risk) (rating D lower than C)	-	-	-	**-**
Default (Lower than D and over 90 days past due)	-	381	591,896	**592,277**
Total Rated	**114,518,779**	**61,586,995**	**603,745**	**176,709,519**
Non-Rated	31,875	18,929	388	51,192
Total gross amount	**114,550,654**	**61,605,924**	**604,133**	**176,760,711**
Carrying amount	**111,927,725**	**56,842,923**	**454,422**	**169,225,069**
Collateral held for credit impaired assets & assets at FVPL	270,340,887	143,935,732	1,505,511	415,782,130
SME Corporate				
Strong (rating A)	1,222,803	280,670		1,503,473
Satisfactory (rating B&C)	19,693,069	14,600,395	2,089	34,295,553
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	73,861	2,496,411	2,570,272
Total Rated	**20,915,872**	**14,954,926**	**2,498,500**	**38,369,298**
Non-Rated	139,849	73,890	6,457	220,196
Total gross amount	**21,055,721**	**15,028,816**	**2,504,957**	**38,589,494**
Carrying amount	**20,652,712**	**13,951,720**	**2,167,972**	**36,772,404**
Collateral held for credit impaired assets & assets at FVPL	64,109,408	42,126,760	11,353,954	117,590,122
Micro Corporate				
Strong (rating A)	1,417,328	138,059		**1,555,387**
Satisfactory (rating B&C)	7,356,792	5,222,079	2,017	**12,580,888**
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	-	547,886	547,886
Total Rated	**8,774,120**	**5,360,138**	**549,903**	**14,684,161**
Non-Rated	1,571,390	731,501	**-**	2,302,891
Total gross amount	**10,345,509**	**6,091,638**	**549,903**	**16,987,050**
Carrying amount	**9,990,842**	**5,840,409**	**460,720**	**16,291,971**
Collateral held for credit impaired assets & assets at FVPL	36,009,187	25,691,015	3,446,925	65,147,127
OFF BALANCE SHEET	**160,434**	**24,782**	**38,687**	**223,903**
Credit cards Loss allowance	4,421	334	7,842	12,597

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the credit quality loans to customers for the corporate portfolio in 2019. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST - CORPORATE PORTFOLIO

31 December 2019	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Large Corporate				
Strong (rating A)	4,068,305	-	-	**4,068,305**
Satisfactory(rating B&C)	134,564,735	5,835,839	27,795	140,428,369
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	-	1,530,977	1,530,977
Total Rated	138,633,040	5,835,839	1,558,772	**146,027,651**
Non Rated	211,560	-	**-**	**211,560**
Total gross amount	**138,844,600**	**5,835,839**	**1,558,772**	**146,239,211**
Carrying amount	**134,253,483**	**5,555,097**	**1,381,363**	**141,189,943**
Collateral held for credit impaired assets & assets at FVPL	324,115,453	19,783,773	**6,798,244**	**350,697,470**
SME Corporate				
Strong (rating A)	1,477,949			**1,477,949**
Satisfactory(rating B&C)	28,924,852	2,001,303	12,360	30,938,515
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	-	1,991,856	1,991,856
Total Rated	**30,402,801**	**2,001,303**	**2,004,216**	**34,408,320**
Non Rated	231,594	109,693	**-**	341,287
Total gross amount	**30,634,395**	**2,110,996**	**2,004,216**	**34,749,607**
				-
Carrying amount	**29,632,153**	**1,986,842**	**1,695,563**	**33,314,558**
Collateral held for credit impaired assets & assets at FVPL	93,111,640	6,277,753	7,869,054	107,258,447
Micro Corporate				
Strong (rating A)	1,357,020			**1,357,020**
Satisfactory(rating B&C)	11,111,498	1,068,440	2,751	12,182,689
Watch list (higher risk) (rating D lower than C)				-
Default (Lower than D and over 90 days past due)			460,914	460,914
Total Rated	**12,468,518**	**1,068,440**	**463,665**	**14,000,623**
Non Rated	**1,527,551**	**67,553**	**8,730**	**1,603,834**
Total gross amount	**13,996,069**	**1,135,993**	**472,395**	**15,604,457**
Carrying amount	**13,450,919**	**1,129,830**	**374,018**	**14,954,767**
Collateral held for credit impaired assets & assets at FVPL	48,648,730	5,438,383	1,725,198	55,812,311
OFF BALANCE SHEET	**201,089**	**1,249**	**30,076**	**232,414**
Credit cards Loss allowance	11,420	216	9,338	**20,974**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the credit quality loans to customers for the retail portfolio in 2020. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST – RETAIL PORTFOLIO

31 December 2020	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage				
Defaults		25,179	1,290,756	1,315,935
Non-Rated	33,668,866	4,552,549		38,221,415
Total gross amount	**33,668,866**	**4,577,728**	**1,290,756**	**39,537,350**
Collateral held for credit impaired assets & assets at FVPL	102,644,128	19,908,237	5,269,160	127,821,525
Consumer				
Defaults		62,925	808,994	871,919
Non-Rated	83,740,363	4,727,220	1,540	88,469,123
Total gross amount	**83,740,363**	**4,790,145**	**810,534**	**89,341,042**
Collateral held for credit impaired assets & assets at FVPL	69,366,224	5,967,758	919,192	76,253,174
Creditcards				
Defaults		28,015	290,218	318,233
Non-Rated	3,074,957	25,724	29,640	3,130,321
Total gross amount	**3,074,957**	**53,739**	**319,858**	**3,448,554**
Collateral held for credit impaired assets & assets at FVPL	-	-	-	-
	5,746,724	32,630	1,136,625	6,915,979
OFF BALANCE SHEET	26,705	246	59,409	86,359
Credit cards Loss allowance	58,035	1,253	322,815	382,104

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the credit quality loans to customers for the retail portfolio in 2019. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST – RETAIL

31 December 2019	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-	Total
Mortgage				
Defaults			1,258,443	1,258,443
Non Rated	32,086,037	1,047,229	1,636	33,134,902
Total gross amount	**32,086,037**	**1,047,229**	**1,260,079**	**34,393,345**
Collateral held for credit impaired assets & assets at FVPL	80,324,968	3,622,511	2,744,651	86,692,130
Consumer				
Defaults			767,532	767,532
Non Rated	79,054,700	911,982	42,159	80,008,841
Total gross amount	**79,054,700**	**911,982**	**809,691**	**80,776,373**
Collateral held for credit impaired assets & assets at FVPL	41,705,052	570,861	1,001,343	43,277,256
Creditcards				
Defaults			445,321	445,321
Non Rated	3,680,137	123,599	4,378	3,808,114
Total gross amount	**3,680,137**	**123,599**	**449,699**	**4,253,435**
Collateral held for credit impaired assets & assets at FVPL	-	-	-	**-**
	4,924,137	79,283	1,018,969	**6,022,389**
OFF BALANCE SHEET	39,275	1,267	151,368	**191,910**
Credit cards Loss allowance	83,229	4,675	541,767	**629,671**

	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Total loss allowance as per December 2020	4,413,785	6,275,607	1,714,069	12,403,461
Total loss allowance as per December 2019	7,021,597	435,252	1,938,868	9,395,717

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, its performance is closely monitored for the purpose of impairment testing. Set out below are the carrying amounts of loans to customers whose term have been renegotiated and are under monitoring:

FORBORNE LOANS TO CUSTOMERS ACCORDING TO THEIR CREDIT QUALITY AT AMORTISED COST

31 December 2020	Total amount of Loans	Total amount of Forborne Loans	Forborne Loans (%)
Stage 1	266,435,033	627,437	0.24%
Stage 2	92,147,989	2,064,136	2.24%
Stage 3	6,080,140	2,606,390	42.87%
Exposure before impairment	**364,663,162**	**5,297,963**	**1.45%**
Stage 1 Allowance	4,345,954	2,711	1.08%
Stage 2 Allowance	6,276,187	72,137	1.15%
Stage 3 Allowance	1,781,320	435,466	25.41%
Total net amount	**352,259,701**	**4,787,649**	**1.36%**
Value of collateral	802,594,080	25,003,810	3.12%

31 December 2019	Total amount of Loans	Total amount of Forborne Loans	Forborne Loans (%)
Stage 1	298,290,214	2,781,463	0.93%
Stage 2	11,165,637	2,764,725	24.76%
Stage 3	6,554,854	2,681,474	40.91%
Exposure before impairment	**316,010,705**	**8,227,662**	**2.60%**
Stage 1 Allowance	7,070,849	76,262	1.08%
Stage 2 Allowance	436,735	28,927	6.62%
Stage 3 Allowance	2,099,573	372,651	17.75%
Total net amount	**306,403,548**	**7,749,823**	**2.53%**
Value of collateral	699,438,780	41,878,642	5.99%

5. Financial risk management (continued)

(b) Credit Risk (continued)

iv. Credit Collateral and other credit enhancement

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.
The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically.

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Financial Assets
- Charges over business assets such as premises, machineries, and accounts receivable;

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.
The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.
Set out below is an analysis of collateral and credit enhancement obtained during the years:

	Loans to customers		
31 December 2020	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial property	170,475,344	524,392,277	694,867,621
Financial assets	11,629,594	13,483,295	25,112,889
Other	21,969,762	60,643,808	82,613,570
Total	**204,074,700**	**598,519,380**	**802,594,080**

	Loans to customers		
31 December 2019	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial property	350,783,232	104,227,225	455,010,457
Financial assets	10,986,755	10,369,922	21,356,677
Other	151,998,240	71,073,406	223,071,646
Total	**513,768,227**	**185,670,553**	**699,438,780**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iv. Credit Collateral and other credit enhancement (continued)

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). The Risk Committee of BKT is engaged with the grading of the customers and their scoring according to the appropriate categories. It decides the changes of grading and takes the necessary actions according to the monitoring procedures. The Risk Committee grades each loan according to these factors:

- Ability to Pay
- Financial Condition
- Management ability
- Collateral and Guarantors
- Loan Structure
- Industry and Economics

5. Financial risk management (continued)

(b) Credit Risk (continued)

iv. Credit Collateral and other credit enhancement (continued)

Past due but not impaired loans

Past due but not impaired loans are those loans and securities, where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio and other financial assets. It relates to the specific loss component for individually significant exposures.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Central Bank of Kosova "On Credit Risk Management". The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower / issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

5. Financial risk management (continued)

(b) Credit Risk (continued)

v. Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and investment securities as at 31 December 2020 and 31 December 2019 is shown below:

	Note	**Loans to customers**		**Loans to banks**		**Investment Securities**	
		31-Dec-20	**31-Dec-19**	**31-Dec-20**	**31-Dec-19**	**31-Dec-20**	**31-Dec-19**
Carrying amount	8,9.1,9.2	351,964,719	305,985,957	32,008,794	-	129,489,704.90	113,609,245
Concentration by sector							
Corporate		222,076,965	189,275,170	4,995,384	-	4,512,248.56	2,431,704
Government		-	-			82,056,532.62	92,954,700
Banks		-	-	27,013,410	-	42,920,923.84	18,222,841
Retail		129,887,754	116,710,787	32,008,794	-	-	
Total		**351,964,719**	**305,985,957**	**32,008,794**	**-**	**129,489,704.90**	**113,609,245**

Concentration by location	**Note**	**Loans to customers**		**Loans to banks**		**Investment securities**	
		31-Dec-20	**31-Dec-19**	**31-Dec-20**	**31-Dec-19**	**31-Dec-20**	**31-Dec-19**
Albania						1,606,516	4,729,596
Kosova		351,964,719	305,985,957			41,302,217	65,167,441
Montenegro						4,834,707	4,092,984
United Kingdom						3,365,079	
Turkey				14,987,804		48,968,169	23,746,831
Egypt						6,450,632	6,524,874
Ukraine						8,288,664	3,474,026
Europe							3,441,791
Russia							2,431,702
Nigeria				5,005,647			
Uzbekistan				12,015,343			
Japan						1,562,473	
Mexico						1,411,141	
Middle East and Africa						11,700,106	
Total	8,9.1,9.2	**351,964,719**	**305,985,957**	**32,008,794**	**0**	**129,489,705**	**113,609,245**

5. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The purpose of Liquidity Risk Management (LRM) is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Bank's LRM policy includes how the Bank identifies, measures, monitors and control that risk.

Organization of LRM: Bank's LRM Organization includes two different bodies in the monitoring and management of liquidity. The involvement of different bodies helps provide clear allocation of the responsibility for monitoring/reporting and management of Liquidity Risk. Day-to-day management of liquidity belongs to the Treasury and FI Group but day-to-day monitoring of Liquidity risk and compliance to the limits belongs to the Risk Management Group. The main purpose of the Risk Management Group, which conducts daily overview of LRM reports, is to provide an early warning signal of liquidity risk to the senior management of the Bank.

LRM Reports: Bank's LRM policy includes sets of daily and monthly reports to be reviewed and monitored by Operational & Market Risk Department. Daily reports include Maximum Cumulative Outflow table and Cumulative Assets and Liabilities Breakdown table, which control respectively daily and monthly inflows/outflows of liquidity till 1-year maturity under "business as usual" scenario. Monthly reports include stress testing liquidity breakdown tables, which control daily and monthly inflows/ outflows of liquidity under separate bank specific and market specific crisis scenarios till 3-months maturity.

The LRM approach of the Bank results in positive liquidity gaps for all time stages up to one year as at 31 December 2019.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2020, the Bank's assets and liabilities have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-specified	Total
Assets							
Cash and balances with Central Bank	102,398,903	-	-	-	-	-	102,398,903
Placement and balances with Banks	23,282,835	6,106,566	1,013,125	-	-	-	30,402,526
Financial instruments measured at FVOCI	-	2,112,908	3,664,930	68,595,948	26,885,487	-	101,259,272
Financial instruments measured at amortized cost		2,213,107	-	17,728,661	8,288,664	-	28,230,433
Due from BKT Albania	38,658	-	-	-	-	-	38,658
Loans and advances to banks	-	-	27,003,147	5,005,647	-	-	32,008,794
Loans and advances to customers, net	4,197,476	3,958,618	37,663,384	158,948,130	147,197,111	-	351,964,719
Other assets	3,963,626	837,430	2,180,865	-	-		6,981,921
Right of use assets		-	-	-	-	2,053,083	2,053,083
Total assets	**133,881,498**	**15,228,629**	**71,525,451**	**250,278,386**	**182,371,262**	**2,053,083**	**655,338,309**
Liabilities							
Customer deposits	275,314,387	15,136,120	122,994,449	125,346,032	517,413	-	539,308,400
Due to banks and REPO Agreements	23,455,131	-	11,120,923	-	-	-	34,576,054
Due to BKT Albania	1,320,571	-	-	-	-	-	1,320,571
Accruals and other liabilities	1,978,468	-	-	-	-	-	1,978,468
Lease Liability	-	-	-	-	-	2,116,340	2,116,340
Borrowings	-	-	450,062	17,797,086	-	-	18,247,148
Total liabilities	**302,068,557**	**15,136,120**	**134,565,434**	**143,143,118**	**517,413**	**2,116,340**	**597,546,982**
Net Position	**(168,187,059)**	**92,509**	**(63,039,983)**	**107,135,268**	**181,853,849**	**(63,257)**	**57,791,327**
Cumulative net position	**(168,187,059)**	**(168,094,550)**	**(231,134,533)**	**(123,999,265)**	**57,854,584**	**57,791,327**	**-**

5. Financial risk management (continued)

(c) Liquidity risk (continued)

LRM reports are produced for Euro currency and for the total statement of financial position as well. Maximum cumulative outflow limits, which are managed and monitored on a daily-basis, have been assigned.

The assets and liabilities are presented at their remaining maturity in the table above. The cumulative liquidity gaps are in negative due to the high concentration of deposits (current accounts).

As at 31 December 2019, the Bank's assets and liabilities have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-specified	Total
Assets							
Cash and balances with Central Bank	38,501,618	-	-	-	-	30,288,265	68,789,883
Placement and balances with banks	30,573,029	5,630,779	-	1,041,176	-	-	37,244,984
Investment securities	188,059	446,007	5,110,041	67,775,540	32,392,185	-	105,911,832
Held-to-maturity securities	-	91,028	29,987	7,576,398	-	-	7,697,413
Due from BKT Albania	25,139	-	-	-	-	-	25,139
Loans and advances to customers	13,555,835	22,954,481	140,690,061	92,847,391	35,938,189	-	305,985,957
Other assets	2,875,019	-	2,653,640	-	-	-	5,528,659
Right of use assets						2,799,428	2,799,428
Total assets	**85,718,699**	**29,122,295**	**148,483,729**	**169,240,505**	**68,330,374**	**33,087,693**	**533,983,295**
Liabilities							
Customer deposits	226,055,045	15,777,392	99,794,421	107,525,346	-	-	449,152,204
Due to banks	1,436,133	1,381,979	1,842,961	-	-	-	4,661,073
Due to BKT Albania	774,405	-	-	-	-	-	774,405
Income tax liability	-	196,960	-	-	-	-	196,960
Accruals and other liabilities	2,299,295	-	-	-	-	-	2,299,295
Lease Liabilities	-	-	-	-	-	2,841,154	2,841,154
Borrowings	18,169	-	4,037,222	18,227,778	-	-	22,283,169
Total liabilities	**230,583,047**	**17,356,331**	**105,674,604**	**125,753,124**	**0**	**2,841,154**	**482,208,260**
Net Position	**-144,864,348**	**11,765,964**	**42,809,125**	**43,487,381**	**68,330,374**	**30,246,539**	**51,775,035**
Cumulative net position	**-144,864,348**	**-133,098,384**	**-90,289,259**	**-46,801,878**	**21,528,496**	**51,775,035**	**-**

5. Financial risk management (continued)

(d) Market risk

1) Foreign currency risk

Foreign currency risk is the risk that the value of assets and liabilities will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Central Bank of Republic of Kosova guidelines and Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions. The Treasury and FI Group manages the foreign currency positions and balances the currency spread of the Bank on an ongoing basis. The following tables present the equivalent amount of assets, liabilities and shareholder's equity by currency as at 31 December 2020 and 2019:

2020	**EUR**	**ALL**	**USD**	**GBP**	**CHF**	**Other**	**Total**
Assets							
Cash and balances with Central Bank	89,169,171	104	749,673	422,667	11,996,001	61,287	102,398,903
Placement and balances with Banks	24,912,092	80,819	2,422,428	219,657	2,758,767	8,763	30,402,526
Financial instruments measured at FVOCI	75,239,371	-	22,654,822	2,220,797	1,144,282	-	101,259,272
Financial instruments measured at amortized cost	9,790,769	-	18,439,663	-	-	-	28,230,433
Due from BKT Albania		25,886			12,771		38,658
Loans and advances to banks	32,008,794	-	-	-	-	-	32,008,794
Loans and advances to customers	351,964,707	-	11	-	1	-	351,964,719
Other assets	5,812,008	-	1,232,401	-	33,007	-	7,077,415
Total assets	**588,896,912**	**106,809**	**45,498,998**	**2,863,121**	**15,944,829**	**70,050**	**653,380,721**
Liabilities							
Customer deposits	521,260,262	355	10,596,460	2,151,131	5,299,055	1,136	539,308,400
Due to banks	31,581,460	-	1,137,721	23	1,856,850	-	34,576,054
Due to BKT Albania	941,269	-	378,870	383	-	49	1,320,571
Deferred tax liabilities	-	-	-	-	-	-	-
Provisions	654,968	-	-	-	-	-	654,968
Income tax liability	-	-	-	-	-	-	-
Total liability	**554,437,959**	**355**	**12,113,051**	**2,151,537**	**7,155,905**	**1,185**	**575,859,992**
Net position	**34,458,952**	**106,454**	**33,385,947**	**711,584**	**8,788,924**	**68,865**	**77,520,726**
Net position (GAP)	**34,458,952**	**34,565,406**	**67,951,353**	**68,662,937**	**77,451,861**	**77,520,726**	**-**

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

2019	EUR	ALL	USD	GBP	CHF	Other	Total
Assets							
Cash and balances with Central Bank	89,169,171	104	749,673	422,667	11,996,001	61,287	102,398,903
Placements and balances with banks	24,900,571	80,819	2,422,428	219,657	2,758,767	8,763	30,391,005
Available for sale securities	75,239,371	-	22,654,822	2,220,797	1,144,282	-	101,259,272
Held-to-maturity securities	9,790,769	-	18,439,663	-	-	-	28,230,432
Due from BKT Albania		25,886			12,771		38,657
Loans to customers	32,008,794	-	-	-	-	-	32,008,794
Other assets	351,964,707	-	11	-	1	-	351,964,719
Total assets	**583,073,383**	**106,809**	**44,266,597**	**2,863,121**	**15,911,822**	**70,050**	**646,291,782**
Liabilities							
Customer deposits	433,746,576	371	8,196,247	1,890,593	5,318,407	10	449,152,204
Due to banks	4,024	-	1,427,293	25	3,229,731	-	4,661,073
Due to BKT Albania	418,278	-	355,668	403	-	56	774,405
Income tax liability	196,960	-	-	-	-	-	196,960
Accruals and other liabilities	2,170,038	-	111,919	-9,932	27,270	-	2,299,295
Borrowings	22,283,169	-	-	-	-	-	22,283,169
Total liability	**458,819,045**	**371**	**10,091,127**	**1,881,089**	**8,575,408**	**66**	**479,367,106**
Net position	**124,254,338**	**106,438**	**34,175,470**	**982,032**	**7,336,414**	**69,984**	**166,924,676**
Net position (GAP)	**124,254,338**	**124,360,776**	**158,536,246**	**159,518,278**	**166,854,692**	**166,924,676**	-

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

The following table shows the sensitivity of the Bank for foreign currency risk. The sensitivity analysis includes only the monetary items denominated in foreign currency at the end of the year, thus making adjustment of their value when the exchange rate of the foreign currencies is changed by 1% and/or 5%. Adverse amount below marks a decrease of the profit or loss which appears in case the EUR increases its value compared to the foreign currencies by 1% and/or 5%. When the value of the EUR compared to foreign currencies decreases by 1% and/or 5%, the effect on the profit or loss is equal but with reverse index as showed in the table below:

in EUR	**Change in 2020**	**Profit or loss 2020**
ALL	5%	5,323
USD	5%	1,661,670
GBP	1%	6,837
CHF	5%	439,430
Other	5%	3,434

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Treasury Department in Head Office manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing or reallocation decisions with the approval of the Asset and Liability Committee in Head Office. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the reporting date were outstanding for the whole year.

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2020 are as follows:

	USD	*Euro*
Assets		
Cash and balances with Central Bank	-	-
Loans and advances to banks	-	3.86%
Loans to customers	-	5,73%
Investment securities	5.93%	3.33%
Liabilities		
Customer deposits and due to banks	0.5%	2.01%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2019 are as follows:

	USD	*Euro*
Assets		
Cash and balances with Central Bank	-	-
Loans and advances to banks	-	-
Loans to customers	6.00%	5.95%
Investment securities	6.69%	3.12%
Liabilities		
Customer deposits and due to banks	1.90%	1.06%

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

2020	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Decrease	100 bp Increase	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(2,716,050)	2,716,050	2,900,022	(2,900,022)

2019	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Decrease	100 bp Increase	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(925,473)	925,473	1,421,060	(1,421,060)

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2020 and 2019 are as follows:

2020	*Up to 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Non-specified*	*Total*
Assets							
Cash and balances with Central Bank	67,945,029	-	-	-	-	34,453,874	102,398,903
Balances with banks	23,282,835	6,106,566	-	1,013,125	-	-	30,402,526
Financial instruments measured at FVOCI	-	2,112,908	3,664,930	68,595,948	26,885,487	-	101,259,272
Financial instruments measured at amortized cost		2,213,107	-	17,728,661	8,288,664	-	28,230,433
Due from BKT Albania	38,658	-	-	-	-		38,658
Loans and advances to banks	-	-	27,003,147	5,005,647	-	-	32,008,794
Loans to customers	4,197,476	3,958,618	37,663,384	158,948,130	147,197,111	-	351,964,719
Total assets (TA)	**95,463,998**	**14,391,199**	**68,331,461**	**251,291,511**	**182,371,261**	**34,453,874**	**646,303,305**
Liabilities							
Customer Deposits, Due to banks& Liabilities based on Repo Transactions	300,090,089	15,136,120	134,115,371	125,346,032	517,413	-	575,205,024
Borrowings	-	-	450,062	17,797,086	-	-	18,247,148
Total liabilities (TL)	**300,090,089**	**15,136,120**	**134,565,433**	**143,143,118**	**517,413**	**-**	**593,452,173**

2019	*Up to 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Non-specified*	*Total*
Assets							
Cash and balances with Central Bank	38,501,618	-	-	-	-	30,288,265	68,789,883
Balances with banks	30,573,029	5,630,779	-	1,041,176	-	-	37,244,984
Investment securities	188,059	446,007	5,110,041	67,775,540	32,392,185	-	105,911,832
Held-to-maturity securities	-	91,028	29,987	7,576,398	-	-	7,697,413
Due from Head Office	25,139	-	-	-	-	-	25,139
Loans to customers	13,555,835	22,954,481	140,690,061	92,847,391	35,938,189	-	305,985,957
Total assets (TA)	**82,843,680**	**29,122,295**	**145,830,089**	**169,240,505**	**68,330,374**	**30,288,265**	**525,655,208**
Liabilities							
Customer Deposits and due to banks	227,491,178	17,159,371	101,637,382	107,525,346	-	-	453,813,277
Borrowings	18,169	-	4,037,222	18,227,778	-	-	22,283,169
Total liabilities (TL)	**227,509,347**	**17,159,371**	**105,674,604**	**125,753,124**	**-**	**-**	**476,096,446**

5. Financial risk management (continued)

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk and carried out with collaboration with Head Office.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with internal standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

(f) Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosova ("CBK"), which ultimately determines the statutory capital required to underpin its business.

5. Financial risk management (continued)

(f) Capital management (continued)

Capital Adequacy

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted exposures, calculated as the sum of the risk-weighted exposure amounts, on- and off-balance sheet for credit risk and for credit counterparty risk, capital requirement for market and operational risk.

The minimum Regulatory Capital Ratio against the risk weighted exposures required by Central Bank of Kosova is 12%. The minimum Tier 1 Capital Ratio is 8.0% and the minimum Regulatory Capital Ratio is 12%.

In December 2020, BKT has reported the following ratios which does not include the profit of the second half of the year.

- 2020 Tier 1 Capital Ratio 12.98% (2019: 12.89%)
- 2020 Total Capital Ratio 14.03% (2019: 13.02%)

Risk-Weighted Assets (RWAs)

Each exposure class has its own specific requirements on how to assess the appropriate risk weight and respective risk weighted exposures. For credit risk and counterparty risk is applied the Standardised Approach. Operational risk capital requirement is calculated based on the Basic Indicator Approach.

6. Cash and balances with Central Bank

Cash and balances with Central Bank as at 31 December 2020 and 2019 are detailed as following:

	31 December 2020	31 December 2019
Cash on hand	28,916,839	29,086,204
Balances with CBK	73,482,064	39,703,679
	102,398,903	**68,789,883**

Balances with the Central Bank of Kosova include the statutory reserve of 10% of customer deposits in Kosova.

Cash and cash equivalents included in Statement of cash flows as at 31 December 2020 and 2019 are presented as follows:

	31 December 2020	31 December 2019
Cash and balances with Central Bank	102,398,903	68,789,883
Statutory reserves	(34,453,870)	(30,288,265)
Balances with banks	23,190,495	33,008,604
	91,135,529	**71,510,222**

Balances with banks at 31 December 2020 and 2019 include current accounts with resident and non-resident banks.

7. Placements and balances with banks

Placements and balances with banks as at 31 December 2020 and 31 December 2019 consisted as follows:

	31 December 2020	31 December 2019
Placements	7,092,362	12,017,924
Current accounts	23,190,496	25,042,636
Accrued interest	125,340	191,598
Impairment provision	(5,672)	(7,174)
	30,402,526	**37,244,984**

The placements in banks are with original maturity up to 1 year and bear interest income from 0.35% up to 4.00% (31 December 2019: EUR 5,637,953are with original maturity up to 1 year).

8. Investment securities

Investment securities as at 31 December 2020 and 31 December 2019 are presented as follows:

	31 December 2020	31 December2019
Treasury bonds and Eurobonds- measured at FVOCI	101,259,272	105,911,832
Corporate bonds- measured at amortised cost	28,230,433	7,697,413
Total	**129,489,705**	**113,609,245**

During 2020, the bank has realised gain in the amount of 2,313,753 Eur due to sale of investments securities measured at FVOCI (2019: 974,325).

a) Investment securities - measured at FVOCI

Treasury bonds and Eurobonds as at 31 December 2020 comprise as follows:

Type	Nominal Value	Unamortized discount	Accrued Interest	Changes in fair value	Impairment (note 24)	Book Value
EUR Denominated	71,713,000	1,003,466	1,017,194	1,649,126	(143,415)	75,239,371
CHF Denominated	1,110,905	638	5,867	26,912	(41)	1,144,282
GBP Denominated	2,002,158	108,922	21,784	88,871	(939)	2,220,797
USD Denominated	21,925,678	(587,698)	392,140	988,637	(63,935)	22,654,822
	96,751,742	**525,328**	**1,436,986**	**2,753,548**	**(208,330)**	**101,259,272**

Treasury bonds and Eurobonds as at 31 December 2019 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Changes in fair value	Impairment (note 24)	Book Value
EUR denominated	88,240,000	1,087,810	1,082,903	2,750,658	(206,671)	92,954,700
CHF denominated	3,408,882	41,961	22,013	108,509	(493)	3,580,872
USD denominated	8,990,564	(161,277)	170,020	404,643	(27,691)	9,376,260
	100,639,446	**968,494**	**1,274,936**	**3,263,810**	**(234,855)**	**105,911,832**

8. Investment securities (continued)

b) Investment securities - measured at amortised cost

Investment securities measured at amortized cost as at 31 December 2020 comprise as follows:

Type	Nominal Value	Unamortized Discount/ Premium	Accrued interest	Impairment	Book Value
EUR Denominated	9,400,000	61,669	360,487	(31,387)	9,790,769
USD Denominated	18,270,720	(84,029)	308,915	(55,942)	18,439,663
Total	**27,670,720**	**(22,360)**	**669,402**	**(87,329)**	**28,230,433**

Investment securities measured at amortized cost as at 31 December 2019 comprise as follows:

Type	Nominal Value	Unamortized discount	Accrued Interest	Impairment	Book Value
Bond USD Denominated	8,011,394	(410,269)	121,015	(24,727)	7,697,413
	8,011,394	**(410,269)**	**121,015**	**(24,727)**	**7,697,413**

9. Loans to customers, banks and other syndication loans

9.1 Loans and advances to banks and syndication loans

Loans and advances to banks are comprised of syndicated loans to foreign banks/entities as presented in the table below:

	31 December 2020	31 December 2019
Bank of Industry Limited	5,000,000	-
Ipoteka-Bank	7,000,000	-
Akbank T.A.S	6,000,000	-
Yapi Ve Kredi Bankasi AS	1,000,000	-
Turkiye Ihracat Kredi Bankasi A.S	1,000,000	-
Turkiye Garanti Bankasi AS	3,000,000	-
QNB FinansBank AS	2,000,000	-
Uzauto Motors JSC	5,000,000	-
Denizbank A.S.	2,000,000	-
Total Loans to banks	**32,000,000**	**-**
Accrued interest	108,988	**-**
Less allowances for impairment on loans (note 24)	(100,194)	**-**
Loans and advances to banks	**32,008,794**	**-**

All loans are in EUR and bear interest rates ranging from 1.85% to 4.50%. All loans will mature within one year, except "Bank of Industry Limited" that will mature in four years. The loans are not secured with collateral, beside "Bank of Industy" which is guaranteed by Central Bank of Nogeria and "Uzato Motors JSC" which is guaranteed by both "Holdco UzAvtosanoat" and "UzAuto Motors Powertain".

9.2 Loans to customers, net

Loans to customers consisted of the following:

	31 December 2020	31 December 2019
Loans to customers, gross	362,539,025	313,987,080
Accrued interest	2,124,137	2,023,625
Less allowances for impairment on loans	(12,403,461)	(9,607,157)
Less deferred fee income	(294,982)	(417,591)
	351,964,719	**305,985,957**

Movements in the allowance for impairment on loans to customers:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
At 1 January	9,607,157	8,408,771
Impairment charge for the year, net	3,241,489	2,531,376
Written off loans	(445,185)	(1,332,990)
At the end of the period	**12,403,461**	**9,607,157**

During the year based on decision from the Board of Directors the Bank has written off loans in total amount of EUR 622,978 (2019: 3,233,656), out of which impaired loans in amount of EUR 445,185 (2019: 1,332,990).

The breakdown of the loan portfolio is as follows:

	2020	2019
Retail (individuals)	37%	38%
Private Enterprises	63%	62%

All loans are in EUR and bear interest rates ranging from 0.5% to 22.2%. The Bank has granted a few loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Bank, and are covered by cash collaterals.

9. Loans to customers (continued)

9.3 Loans to customers, net (continued)

The classification of gross corporate loans by industry is as follows:

	31 December 2020		31 December 2019	
	EUR	%	EUR	%
Construction and other industries	57,506,724	25%	49,975,478	25%
Wholesale Trade	48,984,192	21%	43,686,948	22%
Retail Trade	49,626,216	21%	40,686,125	21%
Manufacturing	25,110,423	11%	23,812,383	12%
Hotels and other services	8,630,121	4%	13,530,589	7%
Services	21,720,758	9%	18,422,335	9%
Agriculture	7,634,992	3%	5,680,625	3%
Other	13,122,799	6%	793,069	0%
Total	**232,336,226**	**100%**	**196,587,552**	**100%**

The classification of gross retail loans by type is as follows:

	31 December 2020		31 December 2019	
	EUR	%	EUR	%
Loans	127,974,476	97%	114,206,190	96%
Overdraft and credit cards	4,352,459	3%	5,216,963	4%
Total	**132,326,936**	**100%**	**119,423,153**	**100%**

10. Property and equipment

Property and equipment as at 31 December 2020 and 2019 are composed as follows:

(In EUR)	Land	Leasehold improvements	Motor vehicles	Computers and electronic equipment	Furniture and equipment	TOTAL
Cost						
At 1 January 2019	**-**	**3,051,458**	**524,231**	**4,972,417**	**1,520,220**	**10,068,326**
Additions	-	37,088	561,079	823,580	19,523	**1,441,270**
Disposals	-	-	(285,171)	-	-	**(285,171)**
At 31 December 2019/ 01 January 2020	**-**	**3,088,546**	**800,139**	**5,795,997**	**1,539,743**	**11,224,425**
Additions	13,875,000	71,388	-	383,357	21,525	**14,351,270**
Disposals	-	-	-	-	-	**-**
At 31 December 2020	**13,875,000**	**3,159,934**	**800,139**	**6,179,354**	**1,561,268**	**25,575,695**
Accumulated depreciation						
At 1 January 2019	**-**	**(2,358,779)**	**(415,859)**	**(4,119,953)**	**(1,410,035)**	**(8,304,626)**
Charge for the year	-	(223,537)	(103,765)	(495,250)	(39,407)	**(861,959)**
Disposals	-	-	285,171	-	-	**285,171**
At 31 December 2019/ 01 January 2020	**-**	**(2,582,316)**	**(234,453)**	**(4,615,203)**	**(1,449,442)**	**(8,881,414)**
Charge for the year	-	(219,961)	(132,432)	(368,262)	(16,283)	(736,938)
Disposals	-	-	-	-	-	-
At 31 December 2020	**-**	**(2,802,277)**	**(366,885)**	**(4,983,465)**	**(1,465,725)**	**(9,618,352)**
Net book value						
At 1 January 2019	**-**	**692,679**	**108,372**	**852,464**	**110,185**	**1,763,700**
At 31 December 2019	**-**	**506,230**	**565,686**	**1,180,794**	**90,301**	**2,343,011**
At 31 December 2020	**13,875,000**	**357,657**	**433,254**	**1,195,889**	**95,543**	**15,957,343**

During 2020 the Bank did not sell any asset.
During 2020, the bank bought a land in amount of EUR 13,875,000, which will be used for Head Office location.

As at December 31, 2020 and December 31, 2019 there are no property and equipment pledged.

Banka Kombetare Tregtare Kosovë sh.a.
Explanatory notes as of and for the year ended 31 December 2020
(amounts in EUR, unless otherwise stated)

10.1 Right of use assets

The Bank leases property used for branches' operations. Information about leases for which the Bank is a lessee is presented below.

	Right of use assets	
	Property	**Total**
As at 1 January 2019	3,632,695	3,632,695
Additions	9,871	9,871
Depreciation expense	(843,138)	(843,138)
As at 31 December 2019/1 January 2020	**2,799,428**	**2,799,428**
Additions	-	-
Depreciation expense	(746,345)	(746,345)
As at 31 December 2020	**2,053,083**	**2,053,083**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	31 December 2020	31 December 2019
As at 1 January	**2,841,154**	**3,632,695**
Additions	-	9,871
Interest expense (note 19)	78,340	99,994
Payments	(803,153)	(901,406)
As at 31 December	**2,116,340**	**2,841,154**

Set out below, are the amounts recognised in profit or loss:

	For the year ended as at 31 December 2020	For the year ended as at 31 December 2019
Depreciation expense of right-of-use assets	746,345	833,949
Interest expense on lease liabilities (note 19)	78,340	99,994
Rent expense - short term leases payments	143,118	97,458
Total amounts recognized in profit or loss	**967,802**	**1,031,401**

Set out below, are the amounts of short-term and long-term lease liabilities:

	31 December 2020	31 December 2019
Short-term lease liabilities	123,653	791,264
Long-term lease liabilities	1,992,687	2,049,890
Total lease liabilities	**2,116,340**	**2,841,154**

11. Intangible assets

Intangible assets as at 31 December 2020 and 2019 are composed as follows:

	Intangible assets	Total
Cost		
At 1 January 2019	276,520	276,520
Additions	5,787	5,787
Disposals	-	-
At 31 December 2019/ January 2020	**282,307**	**282,307**
Additions	81,296	81,296
Disposals	-	-
At 31 December 2020	**363,603**	**363,603**
Accumulated depreciation		
At 1 January 2019	(248,714)	(248,714)
Charge for the year	(21,541)	(21,541)
Disposals	-	-
At 31 December 2019/01 January 2020	**(270,255)**	**(270,255)**
Charge for the year	(49,715)	(49,715)
Disposals	-	-
At 31 December 2020	**(319,970)**	**(319,970)**
Net book value		
At 01 January 2019	**27,806**	**27,806**
At 31 December 2019	**12,052**	**12,052**
At 31 December 2020	**43,633**	**43,633**

As at December 31, 2020 and December 31, 2019 there are no intangible assets pledged.

12. Other assets

Other assets as at 31 December 2020 and 2019 are as follows:

	31 December 2020	31 December 2019
Cards transactions settlement	2,579,403	3,093,640
Prepaid expenses	545,276	119,121
Advances to suppliers	86,924	101,243
Collaterals repossessed by the Bank	2,085,071	1,892,971
Cash differences	-	73
Other assets	1,910,249	665,733
	7,206,923	**5,872,782**
Less allowance for impairment	(225,002)	(225,002)
	6,981,921	**5,647,780**

Movements in impairment of other assets

	31 December 2020	31 December 2019
As of January 1st 2020	225,002	-
Additions during 2020	-	225,002
Reverse charge	-	-
Balance as of 31st December 2020	**225,002**	**225,002**

Movements in the repossessed collateral, which consists of immovable properties, are presented as follows:

	31 December 2020	31 December 2019
At 1 January	1,892,971	1,358,010
Additions	860,041	1,545,276
Sales and disposals	(667,940)	(1,010,315)
At 31 December	**2,085,071**	**1,892,971**

13. Customer deposits

Customer deposits as of 31 December 2020 and 2019 are composed as follows:

	31 December 2020	31 December 2019
Current accounts:		
Individuals	169,685,262	134,726,939
Private enterprises	77,918,978	58,340,514
State owned entities	17,639,575	19,538,518
	265,243,814	**212,605,971**
Add: Current maturity of long-term customer deposits	148,201,141	129,020,917
Total short-term customer deposits	**413,444,955**	**341,626,888**
Term Deposits:		
Individuals	197,280,131	167,755,383
Private enterprises	35,161,133	28,050,870
State owned entities	41,623,322	40,739,980
	274,064,585	**236,546,233**
Less: Current maturity of long-term customer deposits	(148,201,141)	(129,020,917)
Total long-term customer deposits	**125,863,444**	**107,525,316**
	539,308,400	**449,152,204**

13. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

	31 December 2020			31 December 2019		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Current accounts	**250,897,674**	**14,346,140**	**265,243,814**	**201,586,700**	**11,019,271**	**212,605,971**
Term deposits	**270,362,588**	**3,701,998**	**274,064,585**	**232,159,875**	**4,386,358**	**236,546,233**
One month	1,471,765	-	1,471,765	417,039	-	417,039
Three months	1,247,578	-	1,247,578	594,297	-	594,297
Six months	7,228,419	755,042	7,983,461	3,690,618	821,585	4,512,203
Twelve months	91,935,989	2,576,527	94,512,516	85,440,867	2,951,175	88,392,042
Over two years	168,478,837	370,428	168,849,265	142,017,054	613,598	142,630,652
Total deposits	**521,260,262**	**18,048,138**	**539,308,400**	**433,746,575**	**15,405,629**	**449,152,204**

The five largest depositors of the Bank at 31 December 2020 comprise approximately 13 % (2019: 16%) of total deposits.

14. Due to banks and financial institutions

Due to banks as at 31 December 2020 and 31 December 2019 consisted as follows:

	31 December 2020	31 December 2019
Current accounts	95,944	367,310
Time deposits	12,410,917	4,292,804
Accrued interest	2,296	959
Due to banks	**12,509,157**	**4,661,073**
Due to BKT Albania	**1,320,571**	**774,405**
Repo Agreements	22,043,649	-
Accrued interest	23,248	-
Liabilities based on Repo Transactions	**22,066,897**	**-**
Total	**35,896,625**	**-**

Kosova Government Bonds and Securities with a total value of EUR 27,394,350 (31 December 2019: The Bank had no Repo Agreements) were used to secure Repo agreements and borrowings from banks.

Due to BKT Albania represents vostro accounts.

15. Accruals and other liabilities

	31 December 2020	31 December 2019
Accounts payable	1,890,412	2,231,103
Guarantee deposits received	7,123	6,656
Other liabilities	80,933	61,536
	1,978,468	**2,299,295**

As of 31 December 2020, the balance of accounts payables includes: inter-branch account for cards settlement, payable taxes such as withholding taxes for interest, salaries etc.; payable management bonuses, other payable expenses.

"Guarantee deposits received" represents guarantees received from suppliers based on contracts with them.

16. Borrowings

Borrowings as at 31 December 2020 and 31 December 2019 consisted as follows:

	31 December 2020	31 December 2019
Current maturity of long – term borrowings	4,894,444	4,037,222
Non-current part of long – term borrowings	13,333,334	18,227,778
Borrowings	**18,227,778**	**22,265,000**
Accrued interest	19,371	18,169
	18,247,148	**22,283,169**

1. A loan by European Fund for Southeast Europe S.A. ("EFSE") in amount of EUR 10,000,000 was disbursed on December 20, 2019. The applicable margin for the loan is 2.35% per annum.
The loan will be repaid in consecutive semi-annual instalments starting from December 15, 2020 to December 15, 2024.

2. A loan by Green for Growth Fund, Southeast Europe S.A. ("GGF") in amount of EUR 10,000,000 was disbursed on December 16, 2019. The applicable margin for the loan is 2.25% per annum.
The loan will be repaid in consecutive semi-annual instalments starting from December 15, 2020 to December 15, 2024.

3. A loan by European Fund for Southeast Europe S.A. ("EFSE") in amount of EUR 5,000,000 was disbursed on December 20, 2013. The applicable margin for the loan is 3% per annum.
The loan will be repaid in consecutive semi-annual instalments starting from December 30, 2015 to December 30, 2020.

4. A loan by European Fund for Southeast Europe S.A**.** ("EFSE") in amount of EUR 5,000,000 was disbursed on June 30, 2014. The applicable margin for the loan is 3% per annum.
The loan will be repaid in consecutive semi-annual instalments starting from June 30, 2016 to June 30, 2021.

Loans are given with the purpose to be placed to private micro and small enterprises and entrepreneurs (MSEs) that are registered and/or residents in Kosova to finance working capital and investment requirements.

As at 31 December 2020, the Bank is in-compliance with the covenants with EFSE, such as open credit exposure ratio and cost to income ratio.

17. Share capital

At 31 December 2020 the authorized share capital is EUR 31,000,000 (2019: EUR 22,000,000). The Bank is a joint stock company 100% owned by Banka Kombëtare Tregtare J.S.C in Albania. All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends, if declared. All shares rank equally with regard to the Bank's residual assets.

Upon the Shareholder's Decision dated 25 June 2020, the Bank share capital was increased from EUR 22,000,000 to EUR 31,000,000 by capital injection performed on 29 June 2020.

The following table show the shareholder's structure as of 31 December 2020 and 2019.

	31 December 2020			31 December 2019		
	No. of shares	Total in EUR	%	No. of shares	Total in EUR	%
Banka Kombetare Tregtare J.S.C in Albania	**3,100,000**	**31,000,000**	**100**	**2,200,000**	**22,000,000**	**100**

Reserves
The fair value reserve comprises the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are de-recognized or reclassified. This amount is increased by the amount of loss allowance.

Other reserves

Changes between CBK Regulations and IFRS	
Changes on provision fund	(664,017)
Changes on accrued interest	99,440
Changes on deferred tax	277,547
Changes on Accumulated profit from previous years	(5,564)
Changes on other liabilities	592
Total other reserves	**(292,002)**

During the year ended at 31 December 2020, the Central Bank of Kosovo (CBK) changed its regulatory reporting framework and discontinued the requirement for issuing statutory financial statements prepared based on a reporting framework different than IFRS, which resulted on a one-time effect of EUR 292,002. This amount may not be distributed as dividend payment or any other form of distribution, until further instructions or approval received by CBK.

Retained earnings
Retained earnings as at 31 December 2020, includes the cumulative non-distributed earnings.

18. Interest income calculated using the effective interest method

Interest income is composed as follows:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Loans to customers	20,357,142	18,569,523
Due from BKT Albania (Note 25)	2,130	8,265
Investment securities	4,654,369	2,402,922
Balances with banks	685,817	262,904
	25,699,458	**21,243,614**

19. Interest expenses calculated using the effective interest method

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Customer deposits	4,641,540	3,834,936
Due to banks	261,257	167,356
Interest expenses for borrowings	514,424	117,850
Interest expenses for leases (Note 10.1)	78,340	99,994
	5,495,560	**4,220,136**

20. Fees and commissions, net

Fee and commission income and expense are comprised of the following items:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Fee and commission income		
Lending activity	104,818	190,877
Payment services to clients	2,549,532	2,653,065
Customer accounts' maintenance	1,386,481	468,945
Cash transactions with clients	501,385	480,141
	4,542,217	**3,793,028**
Fee and commission expense		
Inter-bank transactions	(184,368)	(155,822)
	(184,368)	**(155,822)**
	4,357,849	**3,637,206**

21. Other (expense) / income, net

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Other income		
Gain on sale of fixed assets	-	50,887
Income from collection of written off loans	261,782	201,765
Other income	159,090	10,703
	420,872	**263,355**
Other expenses		
Write off of loans to customers, net	(177,794)	(1,900,666)
Other expenses	-	(139,115)
	(177,794)	**(2,039,781)**
Other (expense) / income, net	**243,078**	**(1,776,426)**

22. Personnel expenses

Personnel expenses are composed as follows:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Salaries	4,158,471	3,768,183
Social insurance	189,262	176,182
Other employee benefits	646,513	371,289
	4,994,245	**4,315,654**

23. Administrative expenses

Administrative expenses are composed as follows:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Lease payments (note 10.1)	143,118	97,458
Credit/debit cards expenses	1,472,807	1,412,690
Telephone, electricity and IT expenses	365,330	381,953
Other external services	1,224,765	1,128,072
Repairs and maintenance	437,333	336,484
Security and insurance expenses	313,802	286,306
Taxes other than tax on profits	501,252	398,243
Impairment expenses	-	225,002
Marketing expenses	290,833	271,647
Office stationery and supplies	75,283	80,444
Sundry	95,439	96,089
Representation expenses	38,499	41,284
Training	33,503	6,549
	4,991,964	**4,762,223**

Credit / debit card operational expenses are related to expenses for issuing, maintenance and operational expenses for credit and debit cards.

24. Impairment of financial assets other than loans to customers, and provisions for off balance sheet items

Movements in the allowance for impairment of financial assets other than loans to customers and provisions for off balance sheet items:

	Investment Securities	Loans and advances to banks	Placements in banks	Provision for off balance items	Total
At 01 January 2019	**159,819**	**-**	**6,473**	**633,070**	**799,362**
Impairment charge/ (release) for the year	99,763	-	701	(96,449)	4,015
At 31 December 2019/01 January 2020	**259,582**	**-**	**7,174**	**536,621**	**803,377**
Impairment charge/ (release) for the year	36,078	100,194	(1,503)	118,347	253,116
At 31 December 2020	**295,660**	**100,194**	**5,672**	**654,968**	**1,056,494**

25. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank's sole shareholder is BKT Albania owned by Calik Finansal Hizmetler, which is owned by Calik Holding. The ultimate controlling party is Mr. Ahmet Calik.

Aktif Yatirim Bankasi and Kosova Electricity Distribution and Supply Company J.S.C (KEDS) are controlled by Calik Holding. As at January 1, 2015 KEDS is divided into two companies: KEDS and Kosova Electricity Supply Company (KESCO).

Albtelcom sha is a telecommunication company located in Albania and is controlled at 93.2% by Cetel Telecom owned by Calik Holding.

Balances and transactions with related parties

	31 December 2020	31 December 2019
Assets		
Placements and balances with banks:		
Aktif Yatirim Bankasi	42,325	31,478
Due from BKT Albania	38,658	25,139
Loans to customers:		
KEDS / KESCO	489	68
Albtelecom Sh.a	2,359,618	2,501,501
Senior management	418,332	207,456
Other	100,159	-
Total Assets	**2,959,581**	**2,765,642**
Liabilities		
Customer current accounts and deposits:		
KEDS / KESCO	16,157,788	-
KEDS SHA	99,797	12,247,625
Aktif Yatirim Bankasi	8,517,679	-
Senior management	575,380	303,965
Due to BKT Albania	1,320,571	774,406
REPO BKT Albania	12,546,399	-
ALBTELECOM	541	-
OTHER RELATED	753,029	-
Other liabilities:		
Aktif Yatirim Bankasi	-	-
Total Liabilities	**39,971,185**	**13,325,996**

	31 December 2020	31 December 2019
Commitments and contingencies		
Guaranties in favour of customers:		
BKT Albania	150,000	1,038,168
KEDS / KESCO	-	-
Senior management	12,650	11,950
Commitments in favour of customers:		
KEDS / KESCO	4,511	4,932
Senior Management	54,198	26,937
Other Related	22,515	-

25. Related party transactions (continued)

The balances due from Head Office include transfers of funds on behalf of the Bank or its customers, management of foreign currency positions performed by the BKT Kosova, and other inter-company balances.

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Statement of comprehensive income		
Interest income from:	**168,331**	**184,624**
Aktif Yatirim Bankasi	1,958	32,297
KESCO JSC & KEDS SHA	14	20,046
BKT ALBANIA	2,130	132,281
Albtelecom SHA	157,304	-
Other Related	6,924	-
Interest expenses for:	**(14,122)**	**(41,430)**
Aktif Yatirim Bankasi	(2,037)	(17,309)
BKT Albania	(3,514)	(24,121)
KESCO JSC & KEDS SHA	-	-
Other Related	(8,571)	-
Fees and commissions Income:	**61,155**	**43,376**
KESCO JSC & KEDS SHA	37,243	42,857
Albtelecom SHA	-	519
Aktif Yatirim Bankas	22,673	-
Other Related	1,238	-
Net	**215,364**	**186,570**

Transactions with directors and executive officers

The remuneration of directors and executive officers is included in personnel expenses. It can be detailed as follows:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Directors	462,131	329,178
Executive officers	454,105	460,025
	916,236	**789,203**

26. Contingencies and commitments

Guarantees and letters of credit	31 December 2020	31 December 2019
Guarantees in favour of customers	20,232,074	11,061,309
Letters of credit issued to customers	-	1,228,500
	20,232,074	12,289,809
Provision (note 24)	(654,968)	(536,621)
Guarantees and letters of credit, net	**19,577,106**	**11,753,188**

Guarantees issued in favour of customers are guaranteed by mortgages or fully cash collateralised.

Other	31 December 2020	31 December 2019
Undrawn credit commitments	40,578,963	37,231,125
Collaterals for loan portfolio	802,594,080	699,473,780

26. Contingencies and commitments (continued)

Legal

In the normal course of business, the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 December 2020.

Lease commitments

Lease commitments for the years ended 31 December 2020 and 2019 are composed as follows:

	31 December 2020	31 December 2019
Not later than 1 year	123,653	791,264
Later than 1 year and not later than 5 years	786,845	1,534,587
Later than 5 years	1,205,843	515,303
Total	**2,116,340**	**2,841,154**

The Bank has entered into lease commitments with duration up to ten years. The Bank may cancel these leases upon giving three months' notice period. Therefore, at 31 December 2020 the maximum non-cancellable commitment payable not later than one year is EUR 225,944 (2019: EUR 201,509).

27. Income tax

Income tax is comprised as follows:

	31 December 2020	31 December 2019
Current income tax expense	1,187,347	1,061,431
Deferred tax income	(22,790)	(490,853)
	1,164,557	**570,578**

The tax on the Bank's results before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Banks as follows:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Profit before tax	12,217,842	6,683,932
Add/Less: non-deductible expenses	(1,167,789)	(721,930)
Non-allowable tax depreciation	744,745	107,157
CBK Impairment losses not allowed for tax purposes	742,687	4,545,151
Difference in impairment expenses CBK vs IFRS	(664,016)	-
Taxable profit/ (losses) for the year	**11,873,469**	**10,614,310**
Current tax expense	**1,187,347**	**1,061,431**
Effective tax rate	**9.72%**	**15.88%**

27. Income tax (continued)

Deferred tax is calculated based on the enacted tax rate of 10%. The carry forward period for any tax losses in accordance with the laws in Kosova is seven years. The Bank did not recognize the net deferred tax assets relating to temporary differences, due to the fact that it is not certain that the deferred tax asset will be utilized. The tax losses are detailed as follows:

The movement on the deferred income tax account is as follows:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Assets / (Liability) at 1 January	277,547	(213,306)
Release for the period	22,790	490,853
Liability at the end of the year	**300,337**	**277,547**

Deferred income tax liabilities are attributable to the following items:

	31 December 2020	31 December 2019
Allowance for loan impairment	-	454,515
Deferred fee for loan commissions	(12,261)	-
Decelerated depreciation	160	10,716
Deferred interest expenses	34,891	25,622
	22,790	**490,853**

Income tax liability is consisted as follow:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Accumulated taxable profit	**11,873,469**	**10,614,307**
10% tax on income	1,187,347	1,061,431
Prepayments of income tax during the year	(1,282,841)	(864,471)
Income tax (receivable) / payable	**(95,494)**	**196,960**

28. Exchange rates

Official exchange rates used in the translation of the items denominated in foreign currencies in the statement of financial position were as follows:

	31-Dec-20		31-Dec-19	
Currency	**Units per EUR**	**EUR per Unit**	**Units per EUR**	**EUR per Unit**
USD	1.227099999	0.814929509	1.12331371	0.8902233
GBP	0.899030000	1.112309934	0.85054793	1.1757128
CHF	1.080200000	0.92575449	1.08538604	0.9213312
ALL	123.4000000	0.008103728	121.77000033	0.0082122

29. Swap Contracts

2020

NAME	*Value Date*	*Maturity Date*	*Amount in EUR*	*Currency*
AKTIF INVESTMENT BANK	04/08/2020	02/02/2021	7,000,000	EUR
AKTIF INVESTMENT BANK	06/08/2020	16/02/2021	1,108,879	GBP
AKTIF INVESTMENT BANK	06/08/2020	23/02/2021	3,000,000	EUR
AKTIF INVESTMENT BANK	02/09/2020	02/03/2021	5,000,000	EUR
AKTIF INVESTMENT BANK	06/10/2020	07/04/2021	10,000,000	EUR
AKTIF INVESTMENT BANK	30/10/2020	17/02/2021	1,700,000	EUR
AKTIF INVESTMENT BANK	10/11/2020	14/05/2021	5,000,000	EUR
AKTIF INVESTMENT BANK	30/12/2020	12/01/2021	6,500,000	EUR
TOTAL			**39,308,879**	

2019

NAME	*Value Date*	*Maturity Date*	*Amount in EUR*	*Currency*
AKTIF INVESTMENT BANK	23-10-19	22-04-20	6,000,000	EUR
AKTIF INVESTMENT BANK	31-10-19	30-04-20	3,134,515	EUR
AKTIF INVESTMENT BANK	10-12-19	02-03-20	2,250,000	EUR
AKTIF INVESTMENT BANK	27-12-19	07-01-20	4,400,000	EUR
AKTIF INVESTMENT BANK	30-12-19	08-01-20	2,200,000	EUR
AKTIF INVESTMENT BANK	30-12-19	31-12-19	6,200,000	EUR
TOTAL			**24,184,515**	

The income/expense

The total expense for Swap contracts for 2020 included in "Profit / (loss) from FX trading activities, net" was EUR 321,060 (2019: EUR 58,302).

30. Events after the reporting period

There are no other events after the reporting period that would require either adjustments or additional disclosures in the financial statements.